# PurchasingWorld

*Helping you manage the business of buying*

Vol. 28, No. 9-September 1984


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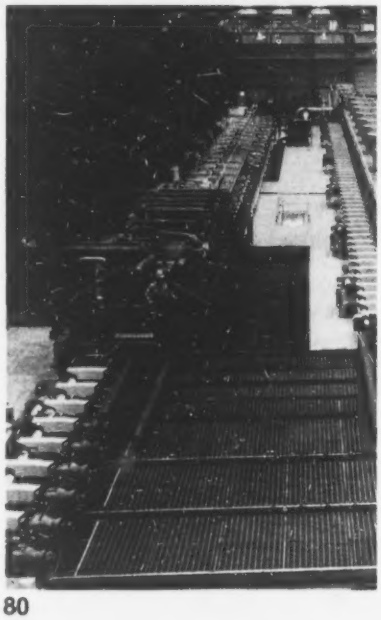

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Cover photo of Keith R. Garrity, chairman and CEO of Fansteel Inc. and the H. K. Porter Co. Inc.

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# PW PREDICTS

Robert S. Reichard, executive editor

## Price, inflation outlook optimistic

The economy may still have its share of headaches, particularly from high interest rates and huge budget and foreign trade deficits, but the chronic problem of the past decade—inflation—seems to be much rosier

Virtually every economist who made an inflation projection earlier this year has been forced to lower it. So have government officials who now see the all-inclusive GNP price deflater rising only 4.4% this year, a half percentage point reduction from their expectations at the beginning of 1984. These same spokesmen are equally optimistic about next year, putting the average advance at under 5%.

Doubly encouraging is this moderate level inflation is occurring at a time when GNP growth rates continue to exceed expectations. GNP gains for the year ending fourth quarter '84 are now pegged near 6.5%, a full point and a half above earlier estimates.

A combination of several factors can be credited for the good news, including:

- **The absence of major market imbalances.** While some electronic and paper items are tight, the nation's overall factory operating rate, despite recent production gains, is still only in the 82% range, three percentage points under the 85% level usually regarded as the cut-off point between a buyers' and a sellers' market.
- **The positive role of imports:** There is little dispute that excess global capacity combined with the strong dollar has held down import prices with the dual effect that imports have made producers more cautious about raising their own domestic tags and have permitted the economy to expand without the usual level of bottlenecks and shortages.

Note: For every 10% appreciation of the dollar, about 1% is knocked off the inflation rate.

- **Surprising labor restraint:** With the recent recession still fresh in workers' minds, unions seem more concerned with job security than big wage settlements, thus collective bargaining pacts in the first half of '84 resulted in average wage hikes of only 2.6% in the first contract year and 2.8% annually over the life of the agreements.

With productivity gains of 3.6% on the average since the onset of the recovery, there have been little or no increases in unit labor costs, a good sign since labor accounts for about two-thirds of every sales dollar.

- **Special factors:** These include (1) expectations of agricultural bumper crops, (2) weakening oil prices, and (3) deregulation which has helped hold down transportation, telecommunication and medical costs.

All of these factors have contributed to a strong non-inflationary psychology. Similarly, there is a great deal more pressure from buyers to hold vendors in line on price hikes.

In short, it looks like a "no sweat" situation for the rest of the year and well into 1985.

## Machine tools

Look for imports to continue to play a major role in machine tool procurement over the next few years. The percentage of overall market captured by foreign producers may drop from recent peaks, but only into the 28-30% range through the remainder of the 1980's

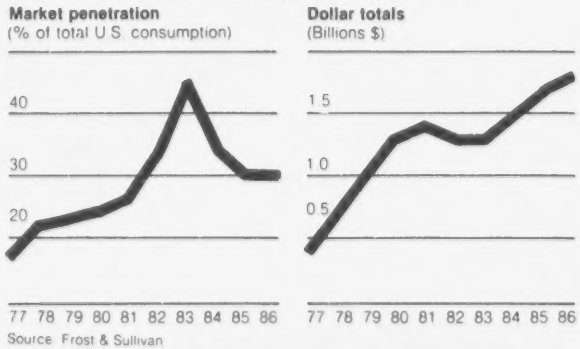
This estimate, based on a new Frost & Sullivan study, notes areas where foreign impact is likely to be greatest: CNC lathes (center 7 chucking types), CNC machining centers (with tool changers), CNC vertical lathes, automatic lathes (single/multi-spindle), surface grinders, gear hobbers, gear grinders, forging presses, and manual milling and drilling machines.

Analysts at the New York and London-based firm cite several reasons for this market penetration (led by Japan with half of all imports last year): (1) the strong U.S. dollar which accounts for lower landed prices, (2) aggressive pricing by overseas producers, and (3) the high order backlog levels of U.S. firms a few years back which permitted foreigners to get their foot in the door.

The study gives two reasons why market share is expected to stabilize over the next few years: offshore producer moves to the U.S., and more domestic producer concentration on the home market.

The report says to stem the import tide, U.S. management must be willing to invest in future market prospects by designing new machines and automating their own facilities for maximum manufacturing cost reduction. An added caveat for domestic producers: Imported machine tools have gained major acceptance from buyers and will not be displaced by a "buy American" attitude.

**Machine tool imports: two views**




Source: Frost & Sullivan

## Plastic resins

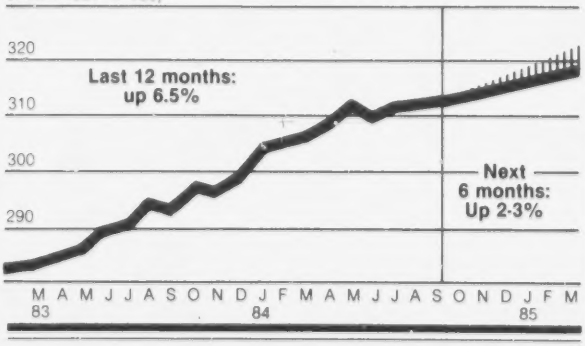
**CURRENT SITUATION: Increases tended to stabilize recently** in the 6.5% range. Behind this moderate advance: a combination of surplus capacity and depressed feedstock costs. Transaction quotes for key resins look like this: Low-density polyethylene (+14%), high-density polyethylene (no change), polyvinyl chloride (−8%), polypropylene (+11%), and polystyrene (no change). Also, resin discounts are ranging from 10% for LDPE and ABS to over 25% for MDPE.

**DEMAND: A good year for thermoplastics** on top of '83's big 13% gain. Year-to-date numbers indicate about 8% gain. Even if the GNP decelerates in '85, these resins should gain 5%. Expect mixed performance in '84 increases, as follows: PVC (9.5%), ABS (9.5%), polypropylene (8.5%), MDPE (8%), LDPE (7.5%), and polystyrene (6%). Long term is bullish as packaging and transportation expand. Example: cars will use 11 lb more plastic a decade hence.

**SUPPLY: There should be enough through 1985.** Projected operating rates for '84-'85, respectively, tell the story: ABS (65%, 66%), LDPE (84%, 89%), MDPE (91%, 95%), polyproylene (89%, 90%), polystyrene (63%, 65%), and PVC (75%, 78%). Minimal plant additions for HDPE in '86 could push close-to-capacity operations. Slowing expansion could push operating rates up for other resins. The addition in '85 for all thermoplastics is put at less than 2% and about 1% in '86.

**PRICE OUTLOOK: Little more than a modest uptick is seen for the next six months,** with official lists averaging about 2-3% above current levels by first quarter '85. It's possible market quotes could go up slightly as discounts narrow. This price pattern is anticipated for the rest of '85 as demand gains and relatively low petrochemical feedstock costs offset improved supply-demand balance. **Expect lists in a year to be about 4-5% above current levels, in line with the inflation trend.**

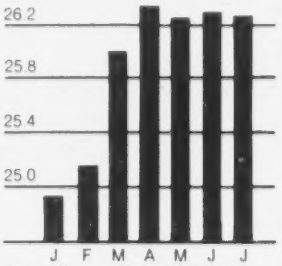
**Plastic resin prices**
(Index: 1967 = 100)




## Corrugated

Brace for new upward price pressure following a new linerboard hike of $30/ton to bring this key raw material into the $350/ton range. Behind the boost: Booming demand with linerboard mills operating all out with little new capacity coming on stream (averaging only 1.4% annually for 1984-86, according to the American Paper Institute). Paper makers hint that this may not be the last in a series of increases since linerboard hit its $250/ton low during the recent recession. One spokesman says producers need at least $500/ton to justify new mill construction.

**Corrugated prices**
(Index: 1967 = 100)




Source: Bureau of Labor Statistics

## Coated paper

Count on tightness spilling over into 1985 with producers hesitant to accept new customers. Some buyers report being put on allocation for an indefinite period. No appreciable new capacity is likely to be available before 1986 or 1987. In the meantime, buyers will have to scrounge, filling in any holes with expensive imports running 12-20% higher than comparable domestic types. Sign of the times: huge imports running year-to-date 30% ahead of '83 levels. One encouraging note for buyers: Some discounting is now reported on uncoated white paper (cut-to-size grades).

## Isocyanates

Despite rising demand (expected to be up 10-15% this year), prices remain soft because of continuing overcapacity. MDI is going in the low to mid-70's (versus a list of 91¢/lb) and TDI is being discounted to the low 80's (versus a list of 93¢/lb). There could be changes in the next few years with upward price pressures as demand comes back into balance, maybe even some tightness developing by 1986 or 1987.

## Steel

The recent price recovery in oil country tubular goods (up 20-25% from last year's lows) may be running out of steam. Reasons: A combination of excess capacity, increased imports, heavy inventories, and sluggish drilling activity. The overall outlook for price hikes in other product lines also dimmed considerably as imports come in at a 24 million ton clip. Highlighting the impact of imports on prices, the Con-

gressional Budget Office recently reported that a 15% steel import quota would boost U.S. prices about 10%, with 3% coming within the first year.

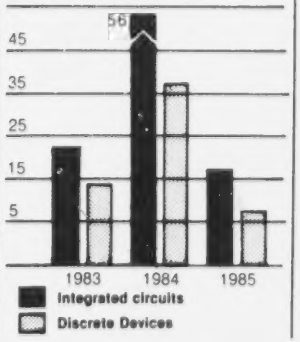
## Fasteners

Price shaving is still common with substantial discounting noted on cap screws, toggle bolts, machine screws, tapping screws, rivets, and washers. Worth noting: Sellers, responding to a new industry survey, say price competition is their biggest problem. Even the U.S. official fastener price index reports latest quotes dropping more than 1% under previous months' levels, which is not complete since the government rarely captures all the discounting going on in this industry.

## Semiconductors

Significant downward price pressures can't be ruled out for next year, from both Japanese and Korean manufacturers.

**Domestic semiconductor sales**
(current $, % change)




Reason: Increasing production potential plus some slow down in demand. Next year's dollar sales are expected to be up only 15-20% for integrated circuits and only 7-8% for discrete devices, compared to this year's respective 50% and 30% advances for these items.

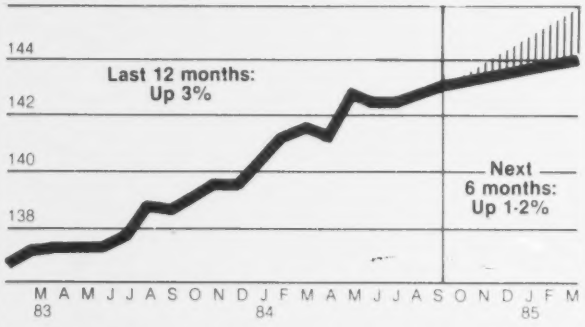
## Aromatic chemicals

Benzene prices, pressured by imports, are off another 8¢/gallon, down to near $1.32/gallon contract quotes. Spot prices are even lower, with some as low as $1.29. Toluene spot quotes are even lower still, falling to under $1/gallon. Markets should turn around if oil prices stabilize in the months ahead. In the long pull, reduction in lead content of gasoline by 1986 may beef up toluene and xylene, both of which can serve as octane enhancing substitutes for lead.

## Computers

There is still plenty of discounting on PCs, with shading as high as $600 and $400 reported on Apple Macintosh and IBM models, respectively. The upper end of the PC line could also be in for another round of competition with the introduction of IBM's new high powered model, dubbed the PC AT. The model will be selling in two versions, at $3,995 and $5,795, against many other multi-user systems. It could also pose

**Textile mill product prices**
(Index: Dec. 1975 = 100)




## Textiles

**CURRENT SITUATION: Markets have flattened, output is edging down the past few months,** a reverse from last year's 13% domestic production gain. **Prices are following a similar pattern.** Averages have been static, running only about 3% ahead of a year earlier. Summer lull is one factor, but others such as skyrocketing imports and high interest rates are finally beginning to cap carpeting and home furnishings gains.

**DEMAND: Modest increases for the year are likely,** with domestic output expected to rise 3-4%. Apparel markets, rather than carpets, should lead this advance. Apparel seems off by about 10% following last year's 23% jump. Even the fabric sector has soft spots. Corduroy and denim sales are below expectations, but industrial print and oxford cloths are still moving. **Textile mill output is expected to post only about a 2% gain** next year as the rate of gain drops.

**SUPPLY: Buyers should continue to have plenty of bargaining leverage.** Main reason is imports of textiles and apparel are running 40% above last year, nearly a 10 billion square yard equivalent. Steps to stem imports will take time. **Also, domestic capacity is more than ample** running at 85%, six points above '83 levels. The 10% planned increase in capital spending this year is enough to add another point or so onto textile mill potential.

**PRICE OUTLOOK: Little upward pressure is forecast because of the supply-demand situation, but equally important are the soft upward cost pressures.** On the fiber front, for example, cotton has come down about 10¢/lb in recent months and synthetics' averages are only running about 1% ahead of last year. Unit labor costs are steady as productivity gains offset 4-5% pay hikes. **Overall '84 advance is likely to be only 4-5%,** with mill product averages likely to advance only another 1-2% by year end.

tough competition for (1) Apple computers because it incorporates many of that firm's easy-to-use features and (2) makers of some of the bigger mini-computer systems like Digital Equipment and Data General.

## Commodity trends

Good news for basic commodities buyers: Prices over the next year or so aren't likely to move up much (precious metals excepted). Even with still improving demand, scattered declines are actually possible in some areas.

This according to Chemical Bank's just released *World Commodity Outlook* study. Here briefly is how they see future price changes for fourth quarter '85 versus fourth quarter '84:

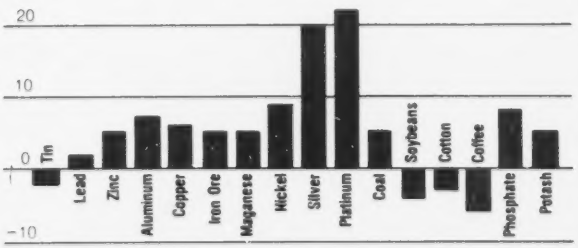
- **Base metals:** Tin (-2%), lead (+2%), zinc (+5%), aluminum (+7%), copper (+6%), iron ore (+5%), manganese (+5%), and nickel (+9%).
- **Precious metals:** Gold (+19%), silver (+20%), platinum (+22%), and palladium (+25%).
- **Energy:** Crude oil (no change), coal (+5%).
- **Agriculture and fertilizer:** Wheat (+3%), corn (no change), soybeans (-4%), cotton (-3%), sugar (+17%), coffee (-6%), cocoa (-11%), phosphate (+8%), and potash (+5%).

Zinc, aluminum and nickel look most bullish, according to the report's section on base metals. About nickel they say, for example, "...demand is being boosted by rapid expansion in stainless output and prices should be on a gently rising trend over the forecast period."

Commenting on zinc and aluminum, the bank report discounts current easiness, observing that market prospects remain sufficiently bullish to expect price gains for 1985. As for copper, the report observes that "unless further production setbacks are instituted, which seems unlikely, then prices in the second half of 1984 should be lower than last year, with prices in 1985 showing only modest appreciation."

**Selected price changes**

(4th qtr 1985 vs 4th qtr 1984)




Source: Chemical Bank

## Petroleum

Discount talk of further declines in crude oil. Reason: OPEC is starting to curtail output, with Saudi Arabia alone cutting back to 4 million barrels a day from the current 5.5 million. But some refined products such as gasoline should remain at bargain levels as consumption tails off seasonably. Look for relatively stable pump prices in the $1.16-1.18 range, some 4-5¢/gallon under May's levels.

## Tall oil fatty acids

Two consecutive monthly increases have pushed prices into the 27-33¢/lb range. Quotes have been on the rise for some time with some grades commanding as much as 70% more than a year ago. Behind the runup: A combination of strong demand and rapidly dwindling producer stocks. This situation is likely to continue with consumption rising at a near 5% rate, more than twice as fast as domestic producers can raise output.

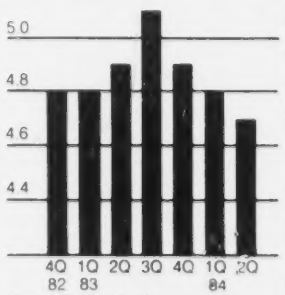
## Insurance

Price wars in property and casualty rates seem to be almost over. Rates in areas such as business property and accident liability have already started to climb, averaging anywhere from 5-15% so far this year, with the actual amount depending on product line and geographical area. There could be more boosts ahead (one firm predicts a 20-30% overall boost by year end). Reason: Last year the industry lost a record $13.3 billion from policy underwriting. But rate hikes won't affect auto and home insurance where rates have been stable in recent years.

## Real estate

Negative news for buyers is that industrial plant bargains should be harder to come by as vacancy rates drop to 4.7% on average, some 0.4 points under late '83 peaks. However, office vacancy rates in key cities continue to climb, reaching 13.5% at latest report, nearly two full percentage points above last year and well under the 3.5% lows of 1980. Things could change as suburban availability begins to decline from the 18%-plus levels of last year.

**Plant vacancy rates (%)**

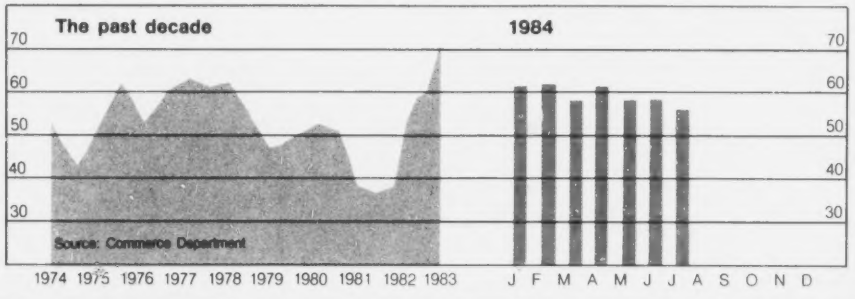



Source: Coldwell-Banker

# BUSINESS DATATRAK

**NAPM business barometer**

Based on five indicators (employment, inventories, new orders, production, vendor performance)




## KEY ECONOMIC TRENDS

## Outlook bullish through autumn

The upward momentum of the first few quarters of the year has carried into the traditionally slow summer months, with the upcoming fall looking almost as good.

Real GNP gains won't be as robust as the huge 8.8% gain at annual rate for the first half of the year, but that's good because it diminishes the likelihood of the economy overheating and falling into a tailspin.

Right now it's hard to see less than a 4% increase in GNP in the second half of the year—a more robust picture than anticipated a few months ago.

Leading indicators tell the story. While the NAPM business barometer has edged slightly lower—it's still well above the neutral 50 level—providing a guarantee of further gains in the the months immediately ahead.

A look at some of the key sectors of the economy support this continuing optimism. The inventory/sales ratio for all U.S. business is down near 1.32, well under the normal equilibrium level of 1.40 and marginally above the all-time low of 1.29 last September.

Also encouraging is the stock/sales ratio for purchased materials (the PM's own bailiwick). As shown in the accompanying chart, the latest figure is far under levels prevailing when pickup first began in early 1983, and well below what might be expected after nearly two years of solid business recovery.

Not even rising interest rates seem to be making much of a dent in the the recovery pattern. The public is still spending at a brisk pace and the outlook is for more of the same in the months ahead. The Michigan Survey's Index of consumer sentiment is now at 96.6 (Feb. '66 = 100), just below the record of three months ago and well above the 91.5 a year ago.

Businessmen seem equally optimistic, though figures ( *see chart alongside*) are not as high as a few quarters back. Latest readings suggest corporate executives still see a rosy picture for the economy and it's showing up in the slow but steady rise in capital spending.

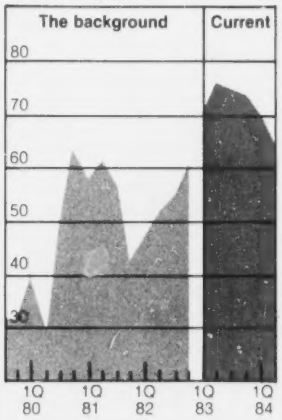
Construction is a pleasant surprise, with housing permits (a barometer of near-term housing activity) still running at about a 1.7 million annual rate, far above the low of 1.3 million at the end of '82.

The employment situation also remains bullish. In July jobs on non-farm payrolls jumped more than 300,000, with gains across a wide range of industries. It is a continuation of an extended trend with jobs rising at a 4.4% annual rate since the beginning of the year.

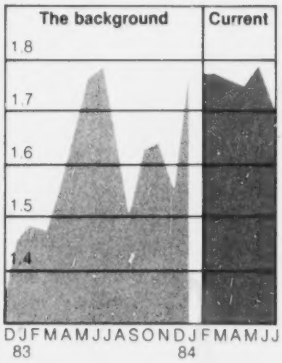
If help wanted figures are any indication, this trend will continue. The Conference Board's index

## Leading indicators

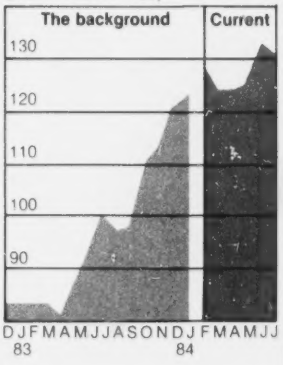
**1. Business confidence**
(Scale 0-100)




**2. Housing permits**
(Millions of units, seas. adj.)




**3. Help wanted**
(Index: 1967 = 100)



of job advertising is at new peak (*see last chart*), some 40% above last year at this time.

However, higher interest rates and rising imports, which are now eating into U.S. production, seem to indicate some deceleration.

But any slowdown is expected to be moderate. All indications are GNP will remain solidly in the plus column for the remainder of the year and well into 1985.

## Pollution control

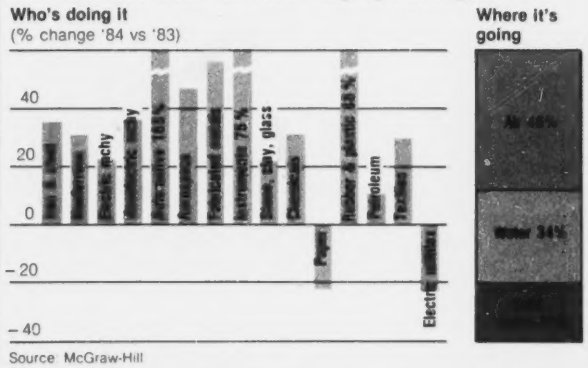
Be prepared to continue shelling out hefty sums for pollution control gear. This year American industry will be buying about $9.5 billion worth of equipment to keep our air, waterways and land free of contamination, up 4.3% from 1983 levels.

One consolation is, according to a recent McGraw-Hill survey, that it is under the $10-11 billion spent in the late '70's when there was a lot of catching up to do.

Other key findings of the new study:

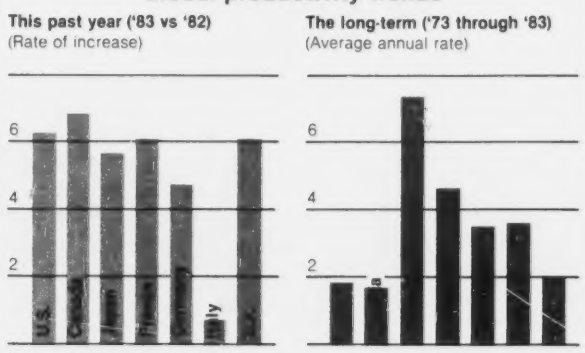
- **Manufacturing versus non-manufacturing:** The entire 1984 increase will be centered in the factory sector where firms plan on a big 19% increase.
- **Next year's outlook:** Preliminary plans call for spending about $10 billion in 1985, up another 5% or so. Once again, it will all be due to manufacturing, with non-manufacturing again dropping by an even larger 13%.
- **The big dollar spenders:** Despite utilities' percentage declines, the industry will continue to shell out the largest dollar amounts, followed by, in descending order, the petroleum, chemicals, and non-electric machinery sectors.
- **Type of equipment:** Air pollution control will continue to lead the pack, with 46% of all planned '84 outlays. Water control will take another 34% chunk, with the remaining 20% going for solid waste disposal.
- **Spending relative to total capital outlays:** The figure is declining both because of (1) the large jump in this year's expansion and modernization program and (2) a trend to more lenient clean-up rules. Put in proper perspective, the percent of total outlays for pollution this year will be just 2.7% versus 3% last year and a high of 5.6% in 1976.

**Pollution control: more big spending ahead**




Source: McGraw-Hill

**Global productivity trends**




Source: Bureau of Labor Statistics

## Global productivity

The nation may finally be coming out of its long productivity slump, with U.S. efficiency gains over the past year equaling or topping most of our overseas competitors.

To be sure, there is a cyclical influence (we recovered faster than most of our industrial trading partners and this tends to make for a larger-than-normal boost).

But there are signs of more meaningful improvement, too. Recent increases have been somewhat better than might have been expected on the basis of cyclical factors alone. Reason: Cost cutting and other fat paring efforts on the part of many domestic firms are beginning to pay off. Another factor could be automation as more of typical capital spending is going toward modernization rather than expansion.

Don't expect miracles *vis-a-vis* our foreign competitors—there's still a long way to go before we catch up with the rest of the industrialized West. The second part of the accompanying chart tells why. Over the past ten years our lackluster 1.9% average annual productivity increase has run at half or less Japan, France, Germany and Italy.

These figures, when combined with wage boosts, explain why Japanese competition is so keen these days. Over the past decade annual Japanese productivity gains have been much higher than in the U.S. (87.4% versus 1.9%), and Japanese wage rates have been a bit lower (8.6% versus 9.3%).

Even though the yen has appreciated a bit relative to the dollar during this extended period, Japanese unit labor cost increases (calibrated in U.S. dollars) ran about half the U.S. annual rate (3.9% versus 7.3%).

## CURRENT PRICES

# Prices still holding steady

Add still another month to the continuing string of stable or near-stable price reports.

Since the beginning of the year, for example, industrial producer quotes have moved up only 1.5%. Even going back a full year, the advance is only 2.7%.

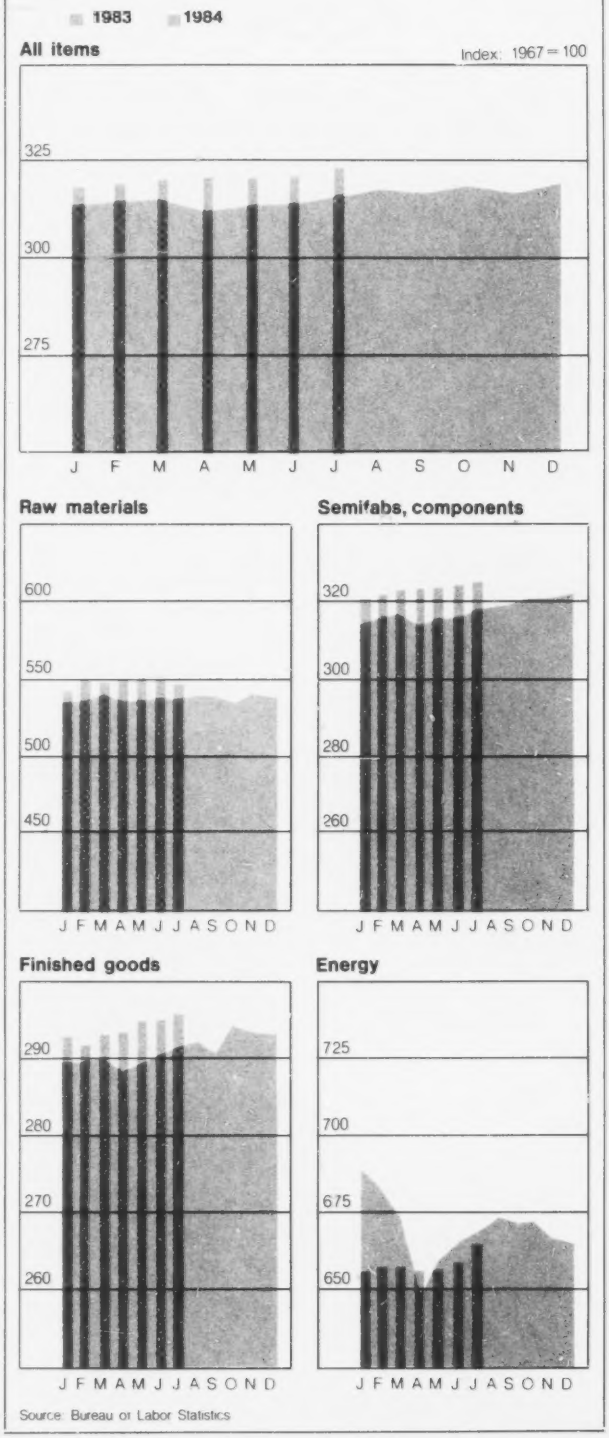
That isn't to say all product lines are faring equally as well. Paper, with operating rates in the 95%-plus range, continues to show some hefty advances, with year-to-date increase put at 11% for paper and nearly 12% for paperboard.

But paper is not the rule. Electronic components, also in short supply, have posted only a 3.6% average gain for the

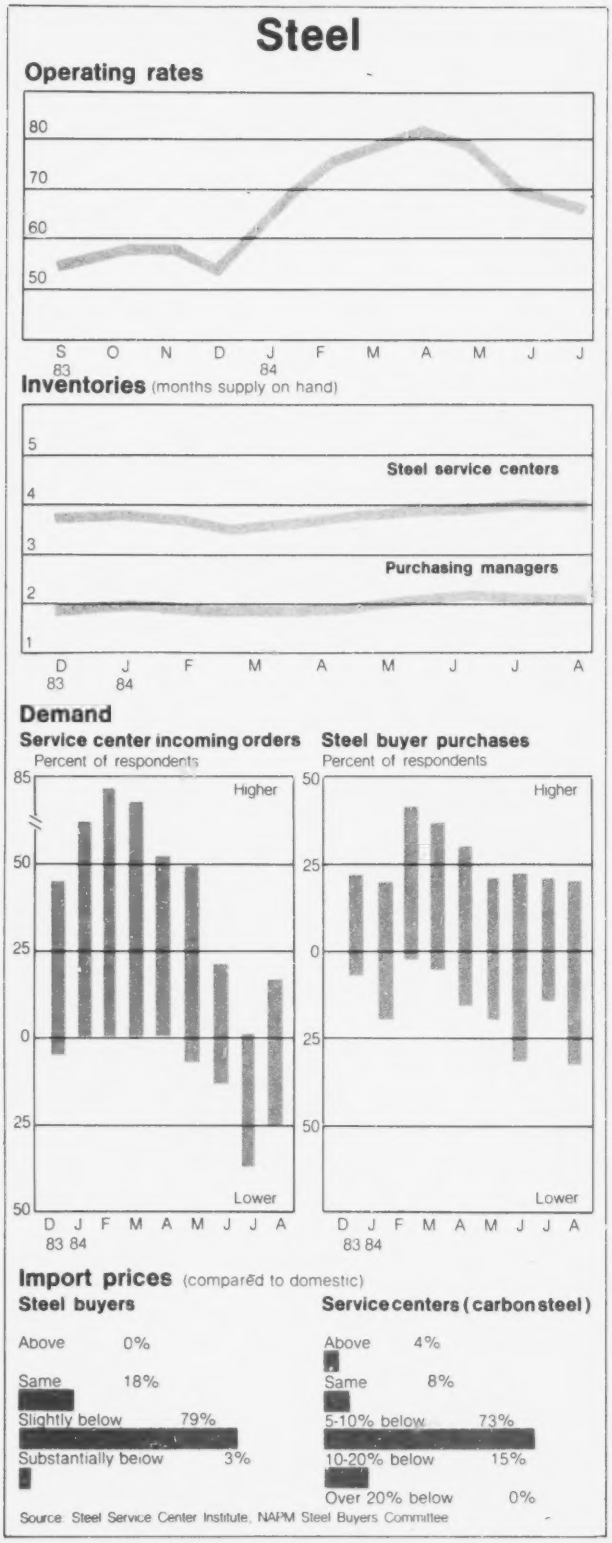
### This month's breakdown

| | Latest level (July) | % change from: Month ago | Year ago |
|---|---|---|---|
| Bearings | 343.3 | 1.6 | 3.6 |
| Bolts, nuts, etc | 278.5 | −1.3 | 4.6 |
| Chemicals, inorganic | 293.9 | 0.7 | −0.4 |
| Chemicals, organic | 370.5 | −0.2 | −0.4 |
| Concrete products | 310.6 | 0.2 | 2.7 |
| Corrugated cartons | 262.7 | −0.1 | 8.5 |
| Cutting tools, small | 279.7 | 0.1 | 0.0 |
| Electric lamps (bulbs) | 336.3 | −1.7 | 7.4 |
| Electronic components | 192.3 | 0.2 | 3.6 |
| Fans and blowers | 351.0 | 0.2 | 4.0 |
| Foundry and forge products | 361.1 | 0.1 | 2.6 |
| Fuel oil (residual) | 1159.4 | 0.8 | 10.2 |
| Furniture, commercial | 297.9 | 0.3 | 3.6 |
| Gasoline | 573.0 | −2.0 | −7.6 |
| Glass, flat | 227.4 | 0.0 | −1.0 |
| Glass containers | 367.1 | 0.3 | 4.4 |
| Gypsum products | 360.6 | 0.1 | 30.7 |
| Hand tools | 358.1 | 0.3 | 2.5 |
| Hand tools, power driven | 224.3 | 1.5 | 0.5 |
| Industrial furnaces | 374.4 | 0.0 | 3.3 |
| Integrating and measuring instruments | 230.5 | 0.6 | 3.9 |
| Internal combustion engines | 345.3 | 0.2 | 0.8 |
| Lubricating oil | 797.8 | 0.0 | 2.8 |
| Lumber millwork | 305.7 | 0.2 | 3.2 |
| Material handling equipment | 289.0 | 0.1 | 1.5 |
| Metal containers | 348.4 | 0.1 | 3.5 |
| Metal mill shapes (nonferrous) | 322.9 | −1.1 | 3.7 |
| Metal tanks | 306.4 | 0.6 | 0.1 |
| Motors and generators | 340.3 | 0.0 | 1.6 |
| Motor trucks | 282.4 | 0.0 | 4.6 |
| Office and store equipment | 154.2 | −0.1 | −0.1 |
| Paperboard | 279.1 | 0.0 | 11.8 |
| Paper boxes and shipping containers | 263.8 | 0.3 | 6.6 |
| Paper office supplies | 243.6 | −0.4 | 7.4 |
| Paint | 274.1 | 1.2 | 3.4 |
| Plastic resins | 309.9 | −0.3 | 6.4 |
| Precision measuring tools | 253.3 | 0.0 | 3.1 |
| Pumps and compressors | 349.9 | 0.1 | 0.6 |
| Refractories | 362.9 | 0.0 | 7.3 |
| Rubber belts and belting | 350.0 | −0.7 | 7.2 |
| Scales and balances | 231.1 | 0.0 | 1.1 |
| Steel products | 364.4 | 0.6 | 4.7 |
| Switchgear | 275.0 | 0.5 | 1.3 |
| Textiles, synthetic fibers | 160.1 | −0.2 | 1.1 |
| Textiles, gray fabrics | 154.1 | −0.1 | 5.5 |
| Tires and tubes | 244.1 | 0.2 | 0.7 |
| Transformers and power regulators | 227.9 | 0.2 | 1.7 |
| Welding equipment | 281.6 | 0.1 | 1.3 |
| Wire and cable | 201.2 | −1.1 | −1.5 |

## Industrial prices




Source: Bureau of Labor Statistics




year. Other high-demand raw materials such as plastic resins and construction materials have not increased significantly.

There continues to be price softness in the key energy sector as new declines in gasoline, home heating oil and crude oil more than offset small increases in coal, residual fuel, natural gas and electricity.

A similarly soft picture is evident in chemicals which are normally quite sensitive to a business pickup, yet both organic and inorganic chemicals are still under year-ago levels.

There isn't much buoyancy in metals either. New easiness in aluminum, copper, zinc, and lead has erased some of the earlier gains in the non-ferrous area. Big discounts of earlier this year have started to reappear in some steel product lines.

Other more highly fabricated products are exhibiting a mixed picture. Over the past month increases in paint, power driven hand tools, bearings, and switchgear have been pretty much offset by declines in fasteners, rubber belts and belting, wire and cable, bulbs, and office equipment.

No major firming trend is apparent in capital equipment either, despite a pickup in orders over recent months. Metalworking, for example, is still running only 2.3% ahead of a year ago. Year-to-date increases are less than 2% in some electrical areas such as transformers and power regulators.

How long will the overall non-inflationary trend continue? While government price collectors hesitate to project, most give off-the-record forecasts of only 1% fourth quarter advance, only fractionally higher than the pattern of the past 12 months.

## STEEL SCENE

### No upturn on the horizon

Don't expect any near term spurt in steel buying, according to new surveys of both buyers and sellers.

Only 19% of the PMs queried by the NAPM Steel Buying Committee expect to increase their receipts of steel in the next three months—little changed from late spring and early summer. And it's far less than the 33% who actually expect to reduce their steel take this fall.

Distributors responding to the latest Steel Service Center Institute (SSCI) aren't very bullish either. Although the 17% who expect an increase in incoming orders over the next few months is better than the 2% figure noted the previous month, it is well under the 25% expecting a decrease in orders.

The fourth quarter isn't promising either. It appears the October-December shipment total will reach only about 19 million tons, well below the 20.6 million tons for the recent second quarter peak.

These new numbers change the outlook for the whole year. Current trends

suggest only about a 77 million ton year, short of the 80 million ton estimates of some a few months back.

The SSCI feels its own members will do fairly well this year, predicting distributor shipments will run 15-20% ahead of last year when '84 is finished.

Even here a note of conservatism is sounded, with 72% of SSCI members thinking stock levels are too high and some 68% saying they would like to reduce these inventories over the next few months, compared to the 2% who still contemplate some increases.

Talks with individual service centers confirm these strategies. There are widespread plans by distributors in the East, Midwest and South to use existing inventories as their main supply source.

One reason for this cautious approach could be the possibility of an auto strike later this month, which some analysts predict could last 1-2 months, cutting into fourth quarter steel consumption.

Whatever the reason for caution, the drop-off in ordering and shipments has made everything loose again. Steel service centers, for instance, see every product remaining readily available for the next three months.

Reduced concern is also noted by steel buyers, but a few say they are keeping a weather eye on coated sheet.

Bargains are still the order for imports. Some 82% of steel buyers say foreign metal is now cheaper.

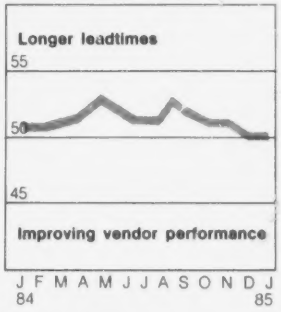
Again, steel service centers agree, with 73% saying carbon steel is 6-10% below comparable domestic levels, and another 15% put the price break in the 11-20% range.

Distributors say much the same for stainless, with 79% noting a 6-10% price advantage for foreign, and 21% putting the saving in the 11-20% range.

**Monthly procurement status report**

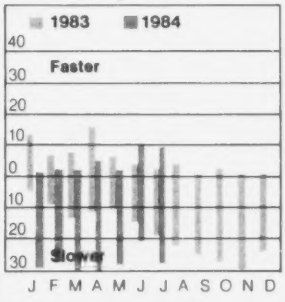
**Leadtime index**

A 'diffusion' index based on 158 key commodities. Above '50' indicates a tendency for leadtimes to stretch out. Below '50' suggests improving vendor performance.

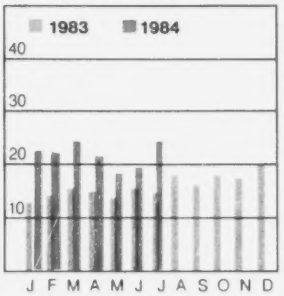



**Delivery performance**

Percent reporting deliveries

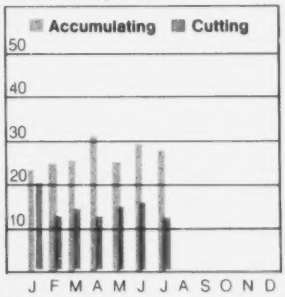



**Forward commitments**




**Inventory strategy**

Percent of respondents




Source: NAPM

## PROCUREMENT STATUS

### PW's index on "50" line for second month

With a few stretchouts and reductions, 90% of the 160 or so items monitored regularly by *PW* show the same weekly waits as a month ago.

*PW's* exclusive lead time index remains squarely on the neutral "50" line for the second month in a row, a good sign that things have stabilized.

This is also confirmed by the latest NAPM Business Survey report which finds 9% of the respondents still noting faster deliveries, slightly under the 10% noted last month.

No serious shortages are expected. Even the recent tightness in electronic components seems to be easing. A fair number of PMs surveyed feel the normal fall business pick-up, combined with relatively high vendor operating rates, suggest some inventory accumulation.

Again survey results tell the story. At latest report, some 20% were still adding to their stocks, nearly three times the 12% who said they were paring.

This modest concern is also reflected in some additional forward buying. Of the PMs queried, 24% said they were ordering production materials 90 days or more in advance, up from last month's figure of 19%.

But these buyers add that things are well under control. As one purchasing executive puts it: "We may be ordering a bit more, but only because we expect to use it up over the next few months. In short we really do not expect any significant change in our overall day's supply which remains pretty much at an all-time low."

## Leadtimes and availability

**Chicago:** Strike hedging has stretched coal from 1½ to 2 weeks currently. Chrome chemicals are also out (to 2). Ditto, softwood sheathing (to 2). But narrowing leads are noted for wrapping paper (2 to 3), PVC resins (1) and brass and copper—with special orders for sheet and coil down to 8-10 and rod down to 6.

**Cleveland:** Coil coating paint has stretched out slightly to 6 weeks. And despite some demand easing, cold-finish aluminum waits hold at an extended 14 weeks. Lumber and plywood remain available at 3. Also unchanged are polyethylene and PVC (3-4), folding boxes (4) and 2-ply fiber drums (2).

**Los Angeles:** Computer peripherals have moved out to 8-10 weeks. Also stretching a bit are connectors (40) and passive components (30-36). Coming in are paperboard cartons (3-4), selected chemicals (4-6), and electrical equipment (20-24). But no change in grey iron castings (4-6) and galvanized steel (12-16).

# BUSINESS DATATRAK

**Houston:** The summer lull has left things pretty much at month-earlier levels—with these curreent weekly waits reported: High pressure heat exchangers (26-60), forgings (5-7), control valves (8-26), pumps (26-43), mill steel (4), service center steel (1), MRO items (3), electric and electronic components (8).

**Philadelphia:** Some difficulty in getting polyethylene bags which are now out 3-5 weeks. Also moving higher are corrugated boxes (3), fasteners for wooden cases (3), chemicals for foam-in-place packaging (½ to 1), standard reinforced gum tape (1-4), and tall oil (6-8 without contracts). But white and yellowgreases are in to 1-2.

**Pittsburgh:** Minor changes here—with a 2-week increase (to 8) in manganese offset by a similar 2-week reduction in zinc (to 2) as supplies ease. Other typical weekly leads: Tissue paper (5½), lumber (3), polyethylene (4), PVC resins (6), folding cartons (3½, plastic packaging (3), magnesium (4), and tin (3).

## Leadtimes (in weeks)

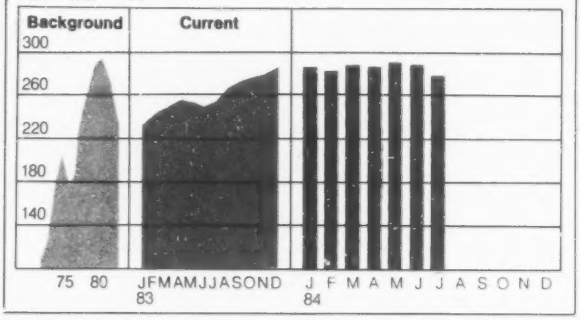
| | Now | Month ago | Six months ago |
|---|---|---|---|
| **STEEL** | | | |
| Sheet (Phil) | 9 | 9 | 9 |
| C-R Sheet (Chgo) | 5 | 5 | 8½ |
| Plate (Phil) | 10 | 10 | 10 |
| Plate (Chgo) | 2½ | 2½ | 4 |
| Reinforced (Hous) | 6 | 6 | 6 |
| H-R Bars (Phil) | 7 | 7 | 4½ |
| H-R Bars (Chgo) | 3 | 3 | 3 |
| Cold-Drawn Bars (Phil) | 7 | 7 | 4½ |
| Galvanized (LA) | 14 | 14 | 20 |
| Galvanized (Chgo) | 6 | 6 | 7 |
| Structurals (Chgo) | 3½ | 3½ | 2½ |
| Structurals (Hous) | 17 | 17 | 17 |
| Tubing (Phil) | 7 | 7 | 7 |
| Grey Iron Castings (LA) | 5 | 5 | 6 |
| Steel Castings (Hous) | 11½ | 11½ | 11½ |
| Forgings (Hous) | 6 | 6 | 5 |
| Pipe, Carbon (Hous) | 13 | 13 | 13 |
| **ELECTRIC & ELECTRONIC** | | | |
| Cables (Chgo) | 8½ | 8½ | 8½ |
| Capacitors (Chgo) | 17 | 17 | 16 |
| Circuit Breakers (Chgo) | 6 | 6 | 6 |
| Electromech. Devices (LA) | 7 | 7 | 9 |
| ICs (Linear) (Phil) | 20 | 20 | 20 |
| Motors (Phil) | 15 | 15 | 21 |
| Motors, 1000 hp & Up (Hous) | 39 | 39 | 39 |
| Printed Circuit Boards (Chgo) | 20 | 20 | 12 |
| Relays (Chgo) | 15 | 15 | 15 |
| Resistors (Chgo) | 14 | 14 | 10 |
| Resistors, Wirebound (Phil) | 10 | 10 | 9 |
| Transformers (Chgo) | 10 | 10 | 10 |
| **LUMBER** | | | |
| Hardwood (Pgh) | 3 | 3 | 3 |
| Hardwood (Clev) | 3½ | 3½ | 3½ |
| Plywood (Chgo) | 2 | 2 | 1½ |
| Plywood (Phil) | 1½ | 1½ | 1½ |
| Softwood (Clev) | 3 | 3 | 3 |
| Softwood (Phil) | ⅛ | ⅛ | ⅛ |
| Softwood (Pgh) | 3 | 3 | 3 |
| Particleboard (Phil) | 2½ | 2½ | 2½ |
| **CHEMICALS-PLASTICS** | | | |
| Adhesives (LA) | ½ | ½ | ½ |
| Napthalene (Chgo) | 2 | 2 | 2 |
| Paint (LA) | 5 | 5 | 4 |
| Paint, Coil Coating (Pgh) | 4 | 4 | 4 |
| Paint, Maint. (Cleve) | 3½ | 3½ | 3 |
| Polyester Resin (LA) | 2 | 2 | 2 |
| Polyethylene Resin (Cleve) | 3 | 3 | 3 |
| Polyethylene Resin (Pgh) | 4 | 4 | 4 |
| PVC Resin (Chgo) | 1 | 3 | 2½ |
| PVC Resin (Pgh) | 6 | 6 | 4 |
| Titanium Dioxide (LA) | 1 | 1 | 1 |
| **PACKAGING** | | | |
| Bags, Kraft (Pgh) | 5 | 5 | 5 |
| Bags, Multiwall (Clev) | 9 | 9 | 9 |
| Bags, Multiwall (Pgh) | 6 | 6 | 6 |
| Cartons, Corrugated (Cleve) | 3 | 3 | 3 |
| Cartons, Corrugated (Hous) | 3 | 3 | 3 |
| Cartons, Folding (Phil) | 6½ | 6½ | 6½ |
| Cartons, Folding (Pgh) | 3½ | 3½ | 3½ |
| Cellophane Wrap (Phil) | 5 | 5 | 5 |
| Plastic Bags (Pgh) | 3½ | 3½ | 3½ |
| Plastic Pkg. (Pgh) | 3 | 3 | 3 |
| Shrink Film (Chgo) | 4 | 4 | 4 |
| Shrink Film (Clev) | 3 | 3 | 3 |
| Drums, Fiber (Pgh) | 1 | 1 | 1 |
| Drums, Steel, Std. (Pgh) | 1 | 1 | 1 |
| Wood Pallets (Chgo) | 2½ | 2½ | 2½ |
| Wirebound Boxes (Pgh) | 4½ | 4½ | 4½ |
| Strapping (Clev) | 2½ | 2½ | 2½ |
| Strapping (Pgh) | 3 | 3 | 3 |
| **PAPER** | | | |
| Fiberboard (Clev) | 3½ | 3½ | 3½ |
| Glassine (Clev) | 4½ | 4½ | 4½ |
| Glassine (Pgh) | 5½ | 5½ | 5½ |
| Groundwood (Clev) | 4½ | 4½ | 4½ |
| Groundwood (Pgh) | 7 | 7 | 7 |
| Kraft (Clev) | 1 | 1 | 1 |
| Kraft, Bleached (Clev) | 1 | 1 | 1 |
| Kraft, Bleached (Pgh) | 5 | 5 | 5 |
| Kraft, Natural MFNS (Clev) | 1 | 1 | 1 |
| Laminated (Clev) | 4 | 4 | 4 |
| Tissue (Pgh) | 5½ | 5½ | 5½ |
| **NON-FERROUS** | | | |
| Aluminum Coil (Chgo) | 13 | 13 | 11 |
| Aluminum Plate (Chgo) | 14 | 14 | 9 |
| Aluminum Sheet (LA) | 4½ | 4½ | 4½ |
| Aluminum Sheet (Chgo) | 13 | 13 | 14 |
| Brass Castings (LA) | 7 | 7 | 7 |
| Brass Rods (Chgo) | 6 | 10 | 3½ |
| Brass Sheet (Chgo) | 9 | 17 | 13 |
| Brass Tube (Chgo) | 5 | 9 | 9 |
| Copper Fittings (LA) | 3½ | 3½ | 3½ |
| Copper Mill Prod. (Pgh) | 6 | 6 | 6 |
| Copper Tube (LA) | 5½ | 5½ | 5½ |
| Copper Tube (Phil) | 6 | 6 | 6 |
| Lead (Pgh) | 2 | 2 | 2 |
| Magnesium (Pgh) | 4 | 4 | 6 |
| Manganese (Clev) | 8 | 6 | 2 |
| Nickel (Clev) | 1 | 1 | 1 |
| Nickel (Pgh) | 2 | 2 | 2 |
| Silicon (Clev) | 1 | 1 | 1 |
| Tin (Pgh) | 3 | 3 | 3 |
| Wire, Specialty (LA) | 5 | 5 | 6 |
| Zinc (Pgh) | 2 | 4 | 6 |
| **MISCELLANEOUS** | | | |
| Bearings, Domestic (Phil) | 22 | 22 | 12 |
| Bearings, Foreign (Phil) | 26 | 26 | 26 |
| Boilers & Furnaces (Hous) | 35 | 35 | 35 |
| Compressors, Centrifugal (Hous) | 48 | 48 | 52 |
| Compressors, Reciproc. (Hous) | 39 | 39 | 43 |
| Fasteners (Chgo) | 1½ | 1½ | 1½ |
| Fasteners (LA) | 7 | 7 | 6 |
| Fasteners, Std. (Phil) | 2½ | 2½ | 2 |
| Heat Exchangers, Carbon-alloy Steel (Hous) | 20 | 20 | 20 |
| Heat Exchangers, Hi-pressure (Hous) | 43 | 43 | 21 |
| Insulation Mat'l. (LA) | 7 | 7 | 7 |
| Machined Parts (Hous) | 9 | 9 | 9 |
| Pipes & Valves (Chgo) | 2 | 2 | 2 |
| Pumps (Hous) | 35 | 35 | 39 |
| Pumps (LA) | 9 | 9 | 9 |
| Rubber, Synthetic (LA) | 2 | 2 | 2 |
| Rubber Hose (LA) | 4 | 4 | 4 |
| Tungsten Carbide Parts (Hous) | 15 | 15 | 15 |
| Valves, Cast Steel (Hous) | 17 | 17 | 6½ |
| Welding Supplies (Hous) | 5 | 5 | 5 |

# BUSINESS DATATRAK

## Raw material price barometer

| | |
|---|---|
| Latest month | 280.1 |
| Month before | 286.2 |
| Year ago | 256.0 |

Index: 1967 = 100




## Latest spot market prices

| | Latest price | Previous month | Year ago |
|---|---|---|---|
| **FERROUS METALS** | | | |
| Pig iron, basic, valley, gross ton | 213.00 | 213.00 | 213.00 |
| Pig iron, Bessemer, Pitts., gross ton | 213.00 | 213.00 | 213.00 |
| Steel, billets, Pitts., net ton | 367.00 | 367.00 | 347.00 |
| Steel, structural shapes, Pitts., cwt. | 23.90 | 23.90 | 23.90 |
| Steel, structural shapes, Chi., cwt. | 23.90 | 23.90 | 23.90 |
| Steel, structural shapes, Los Angeles, cwt. | 24.40 | 24.40 | 24.40 |
| Steel, bars, dlvd. Phila., cwt., merchant quality | 23.95 | 17.50 | 17.50 |
| Steel, bars, Pitts., cwt. | 23.95 | 17.50 | 17.50 |
| Steel, bars, C.R., Pitts., cwt. | 29.25 | 26.00 | 26.00 |
| Steel, plates, Pitts., cwt. | 23.25 | 23.25 | 25.75 |
| Steel, plates, H.R., Pitts., cwt. | 23.25 | 23.25 | 25.75 |
| Steel, sheets, C.R., Detroit, cwt. | 27.10 | 27.10 | 26.15 |
| Steel, strip, C.R., Chi., cwt. | 35.30 | 35.30 | 29.05 |
| Steel, basic wire, Pitts., cwt. | 23.65 | 23.65 | 23.65 |
| **NONFERROUS METALS** | | | |
| Aluminum, ingot, lb. (market place) | 0.553 | 0.578 | 0.735 |
| Antimony, in alloy, lb. | 2.00 | 2.00 | 2.00 |
| Beryllium-copper, cost ingot, lb. | 5.20 | 5.20 | 4.95 |
| Brass, red, 85%, [sheet], lb. | 1.23 | 1.25 | 1.29 |
| Brass, yellow, [sheet], lb. | 1.18 | 1.20 | 1.23 |
| Cadmium, ton lots, lb. | 1.55 | 2.25 | 1.15 |
| Copper, electrolytic, wire bars, refd., lb. | 0.62 | 0.65 | 0.77 |
| Copper sheet, over 24 in., lb. | 1.32 | 1.30 | 1.38 |
| Lead, common, N.Y., lb. | 0.280 | 0.300 | 0.20 |
| Magnesium, pig ingot, [99.8%], lb. | 1.48 | 1.48 | 1.38 |
| Mercury, 20 fl. lots, N.Y., fl. | 295.00 | 318.00 | 275.00 |
| Molybdenum Climax Oxide/bags, lb. | 4.65 | 4.65 | 4.65 |
| Nickel, electrolytic, producer, lb. | 3.20 | 3.20 | 3.20 |
| Platinum, producer, oz. | 475.00 | 475.00 | 475.00 |
| Silver, N.Y., oz. | 7.67 | 7.59 | 11.62 |
| Tin, Straights, N.Y., lb. | 6.28 | 6.29 | 6.49 |
| Zinc, Prime West, East St. Louis, lb. | 0.48 | 0.50 | 0.43 |
| Zinc, die casting alloy, No. 3, lb. | 0.555 | 0.565 | 0.465 |
| **PAPER** | | | |
| Uncoated book #3 offset, ton | 850.00 | 850.00 | 680.00 |
| Watermarked bond, ton | 985.00 | 985.00 | 845.00 |
| Gummed sealing tape, carton | 16.02 | 15.85 | 15.50 |
| Boxboard, mach. clay ctd. recycled sheets 80 bright, .016, ton | 495.00 | 495.00 | 475.00 |
| Wrapping paper, std. distributor cost, kraft, basis wt. 50 lb., roll | 28.00 | 28.00 | 28.00 |
| Kraft linerboard, 42 lb., unbleached, ton | 350.00 | 320.00 | 270.00 |
| **TEXTILES** | | | |
| Burlap, 10 oz., 40", N.Y., yd. | 0.339 | 0.329 | 0.252 |
| Cotton drill, 1.85, 59", 68x49, N.Y., yd. | 1.04 | 1.04 | 0.98 |
| Cotton middling, 1", N.Y., lb. | 0.622 | 0.715 | 0.743 |
| Printcloth, 48", 80x80, N.Y., spot, yd. | 0.76 | 0.76 | 0.63 |
| Army duck, 37", 13 oz., yd. | 1.91 | 1.91 | 1.63 |
| Blended printcloth, 64", 78x54, yd. | 0.77 | 0.76 | 0.71 |
| 20s combed yarns | 2.10 | 2.16 | 1.78 |
| Wool tops, N.Y., lb. | 3.60 | 3.60 | 3.60 |

| | Latest price | Previous month | Year ago |
|---|---|---|---|
| **CHEMICALS** | | | |
| Acrylonitrile, tanks, lb. | 0.455 | 0.455 | 0.430 |
| Ammonia, anhydrous, fertilizer, wholesale, tanks, ton | 210.00 | 210.00 | 150.00 |
| Benzene, petroleum, tanks, Houston, gal. | 1.28 | 1.41 | 1.51 |
| Caustic soda, 76% solid, drums, carlots, cwt. | 26.00 | 26.00 | 26.00 |
| Cresylic acid [over 25%], tanks, lb. | 0.58 | 0.58 | 0.58 |
| Formaldehyde, USP, 37% [12% to 15% meth.], tanks, lb. | 0.106 | 0.106 | 0.106 |
| Glycerine, synthetic, tanks, lb. | 0.81 | 0.81 | 0.73 |
| Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants | 0.54 | 0.54 | 0.48 |
| Naphthalene, crude, tanks, lb. | 0.22 | 0.22 | 0.22 |
| Phthalic anhydride, tanks, lb. | 0.305 | 0.305 | 0.275 |
| Polyethylene resin, low density liner film grade (market price), lb. | 0.410 | 0.400 | 0.380 |
| Polypropylene, homopolymer grade (market price), lb. | 0.400 | 0.415 | 0.360 |
| Polystyrene, general purpose grade (market price) lb. | 0.41 | 0.41 | 0.38 |
| Shellac, bone dry, N.Y., lb. | 1.65 | 1.65 | 1.65 |
| Soda ash, 58%, light carlots, cwt. | 6.15 | 6.15 | 6.15 |
| Styrene monomer, 99.6%, tanks, lb. | 0.35 | 0.35 | 0.34 |
| Sulphur, crude, ex-terminal, Tampa, Fla., lt. | 140.00 | 140.00 | 132.50 |
| Sulphuric acid, 66%, commercial, tanks, ton | 56.85 | 56.85 | 56.35 |
| Titanium dioxide, anatase, reg., carlots lb. | 0.69 | 0.69 | 0.69 |
| Xylene tanks, gal. | 1.33 | 1.33 | 1.33 |
| **BUILDING MATERIALS** | | | |
| Lumber, 2x4 fir, mbf, cl | 307.55 | 316.20 | 346.50 |
| Lumber, 2x2, pine, mbf, cl | 301.65 | 311.15 | 345.30 |
| Plywood, plyform, ¾", msf, cl | 567.70 | 568.00 | 565.55 |
| Plywood, ⅜", msf, cl | 364.05 | 363.55 | 365.85 |
| Cement, bulk, ton, tl | 63.75 | 61.37 | 62.35 |
| Sand, ton, cl | 6.07 | 6.05 | 5.95 |
| Ready-mix concrete, 3,000 psi/cu.yd., 15 cu. yd. | 46.73 | 45.50 | 45.73 |
| Crushed stone, 1½", ton, cl | 7.53 | 7.68 | 7.90 |
| Concrete blocks, sand/gravel, 8"x8"x16", ea., tl | 0.77 | 0.77 | 0.75 |
| Gypsum sheathing, ½"x1"x8", msf, tl | 204.57 | 203.15 | 167.99 |
| Brick, common, per thousand, tl | 173.08 | 176.13 | 171.95 |
| Asphalt paving, AC-20 | 168.06 | 165.20 | 157.00 |
| Concrete sewer pipe, 12", prem. joint, per foot, cl | 7.04 | 6.97 | 6.69 |
| **FUELS** | | | |
| Fuel oil, No. 6 or Bunker C, Gulf., bbl. | 26.00 | 26.15 | 25.25 |
| Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller | 30.50 | 31.50 | 31.25 |
| Gasoline, 91 oct., reg., Los Angeles, rack, gal. | 0.730 | 0.700 | 0.865 |
| Gasoline, 94 oct., reg., Chi., tank car, gal. | 0.771 | 0.766 | 0.883 |
| Heating oil, No. 2, Chi., bulk, gal. | 0.785 | 0.808 | 0.829 |
| Heating oil, No. 2, N.Y., bulk, gal. | 0.773 | 0.798 | 0.858 |
| Heavy fuel, PS 400, Los Angeles, rack, bbl. | 26.50 | 26.50 | 25.98 |
| Jet kerosene, gal. | 0.760 | 0.760 | 0.825 |
| LP-Gas, propane, Okla., tank cars, gal. [incl. discount] | 0.405 | 0.410 | 0.490 |
| **SCRAP MATERIALS** | | | |
| Steel, No. 1, hvy., dlvd., Pitts., ton | 82.00 | 86.00 | 79.00 |
| Steel, No. 1, hvy., dlvd., Chi., ton | 77.00 | 78.00 | 73.00 |
| Copper, No. 1, East, wholesale buy, dlvd., lb. | 0.550 | 0.550 | 0.690 |
| Copper, No. 2, East, wholesale buy, | 0.465 | 0.460 | 0.615 |
| Brass, red, East, wholesale buy, dlvd., lb. | 0.510 | 0.510 | 0.655 |
| Brass, yellow, East, wholesale buy, dlvd., lb. | 0.350 | 0.380 | 0.365 |
| Alum., old sheet/cast, E., wholesale buy, dlvd., lb. | 0.345 | 0.395 | 0.430 |
| Alum., mixed clip., E., wholesale buy, dlvd., lb. | 0.370 | 0.420 | 0.450 |
| Zinc, old, East, wholesale buy, dlvd., lb. | 0.200 | 0.230 | 0.095 |
| Lead, clean solids, East, wholesale buy, dlvd., lb. | 0.165 | 0.180 | 0.103 |
| Paper, No. 1 mixed, dlr., N.Y., ton | Nom. | Nom. | Nom. |
| Paper, old corrug. box, dlr., Chi., ton | 30.00 | 35.00 | 25.00 |
| Paper, old corrug. box, dlr., N.Y., ton | 25.00 | 32.00 | 20.00 |
| Osnaburg cuttings, dlr., f.o.b. N.Y., lb. | 0.12 | 0.14 | 0.095 |
| White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb. | 0.37 | 0.34 | 0.35 |

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

# Non-ferrous supplies ample, prices steady into '85

It has been a good spring and summer for most non-ferrous metal buyers, with ample or even more than ample supplies and few significant price increases.

This trend looks likely to continue through the remainder of this year and into 1985 as well.

What makes the price performance so encouraging (at least from the PM's point of view) is that as recently as six months ago many analysts were predicting major price runups, citing the experience during the last big boom in 1980, when non-ferrous quotes moved up a whopping 17%.

The chart demonstrates just how wrong those analysts were. Despite a 10% plus increase in U.S. industrial production this year, non-ferrous price averages will be up only about 3%. At latest report they were still running a surprising 14% under the peaks of early 1980, just before the market began to nosedive.

Not all metals have behaved in the same way.

Since the current upturn began early last year, for example, there have been substantial increases as well as declines (*see second section of the chart*). But few of the metals monitored have been able to regain their peaks. A few, such as copper, silver and gold, are as much as 30% or more under previous highs.

A more detailed rundown following this overview examines the specific pressures buffeting many of these metals. But there are some factors fairly common to all which help explain why the 1983-84 metal recovery has been so different from most of the previous ones.

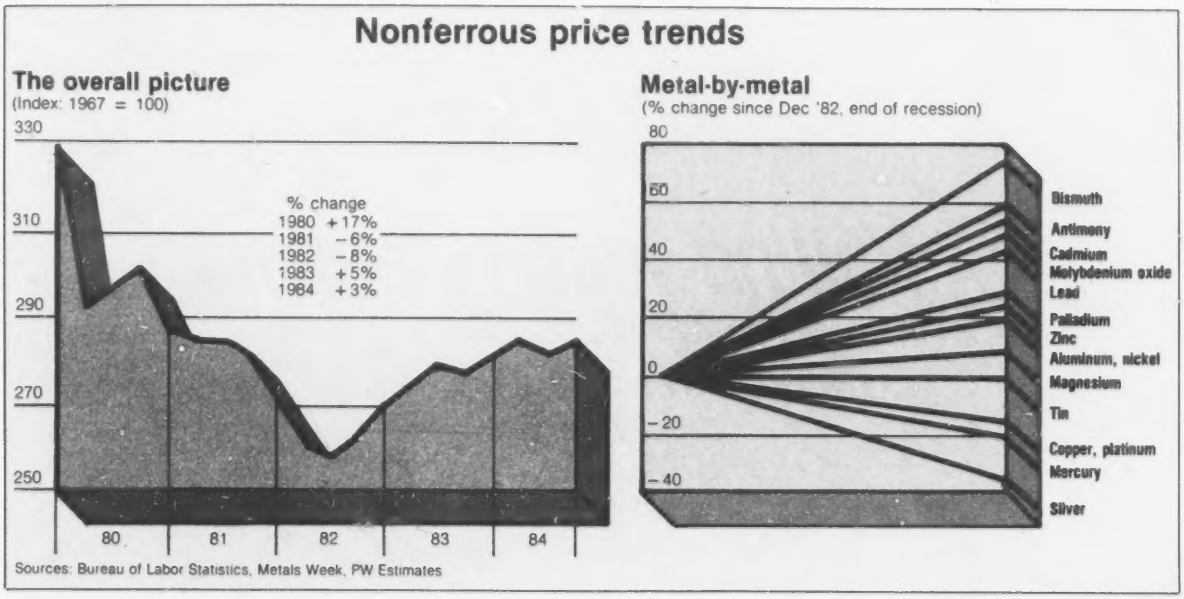
Probably one of the most important contributors is the buoyant dollar with its continuing appreciation *vis-a-vis* other currencies—making it potent enough to attract unusually large tonnages of low priced imports to U.S. shores.

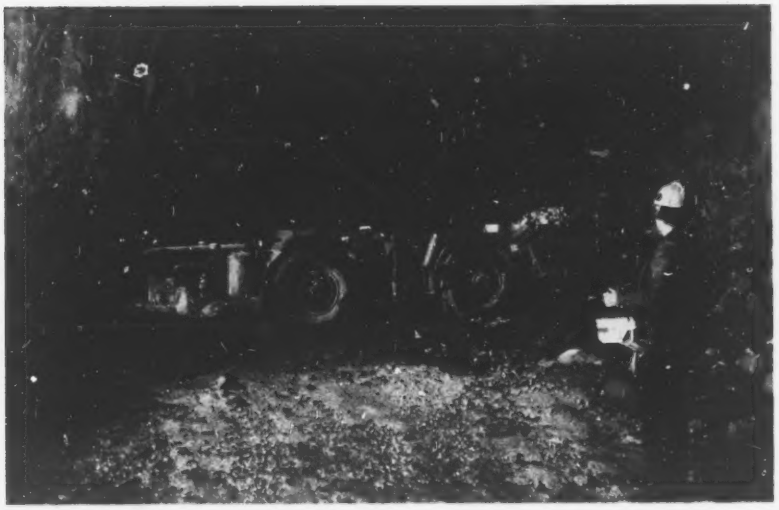
One source recently estimated that anywhere from 5% to 15% of the easiness of the past six months can be traced back to what he characterizes as "overvalued currency."

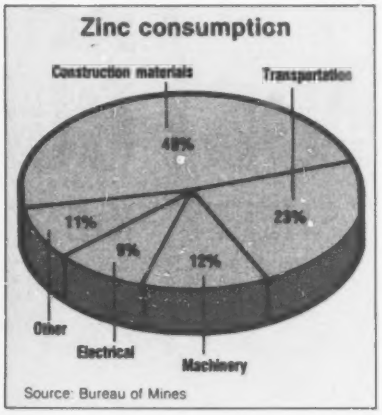
High interest rates have played an equally significant role by dampening speculative interest, not only for gold, silver and platinum, but for some of the base metals such as copper and aluminum.

Note that today's sky high interest rates not only raise the cost of financing metal purchases, but they make alternative investments such as stocks more attractive.

Another important factor damp-








ening speculative interest has been the surprisingly low inflation rate. Low inflation tends to remove the incentive to invest in metals which have historically held their value better than paper currencies.

And there are crucial supply-demand principles at work with inventories in most metals remaining very high, some of which are well above the normal so-called day's supply levels.

A related supply factor is excess global capacity which hangs as an ever-present threat over the market. Indeed, it's more than a threat as exchange hungry Third World countries continue to produce recklessly in order to generate foreign exchange to keep their troubled economies afloat.

Consumption has also been less then hoped for by metals people. Capital equipment, for example, a major user of non-ferrous materials, has only recently begun to turn up. And non-U.S. business recovery, particularly in Europe, hasn't been that robust.

In addition to these factors, metal use per unit of output is slowly declining as a result of a combination of improved technology, miniaturization, and increasing availability of substitute materials, all of which contribute to holding down demand.

What's the future? First, mounting cost pressures and a fall seasonal pickup are bound to have an upward impact, but, as suggested from the chart, any price increase in the upcoming fourth quarter will be minimal as far as overall non-ferrous averages are concerned.

And 1985 does not promise any dramatic shift to an all-out bull market in non-ferrous metals primarily because U.S. gains are expected to taper off by then. Current information projects only a 10 million unit-car-year as opposed to 10.4 million in 1984, and high interest rates are expected to drop housing starts to perhaps only 1.5 or 1.6 million in 1985 as opposed to 1.8 or 1.9 million in 1984.

The slowing down of demand in these two key metal markets is expected to offset gains in other areas thus limiting overall metal demand increases to about 2% to 4%, which is well under this year's projected advance.

This type of scenario suggests little more than nominal price increases, with overall non-ferrous averages lagging behind the projected overall general inflation rate of 5% to 6%.

## Metal-by-metal outlook bright for buyers

### Zinc

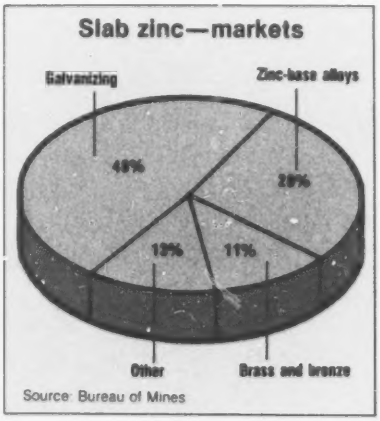
Demand for zinc has improved with the U.S. economic recovery. Consumption of slab zinc is up 13% over a year ago, but domestic consumption is down because of strikes at major lead-zinc mines. Imports are holding adequate to meet any increased demand.

Imports now account for 66% of domestic production with the bulk coming from Canada, Mexico and Peru, all stable sources of supply.

The price of high grade zinc, which averaged 42¢/lb last year, is now running about 48¢/lb, a drop from 50¢. Higher prices are encouraging the development of new zinc deposits within the U.S.

Zinc recently has been gaining ground lost to aluminum and plastics in one of its major markets, diecastings, due to 1982-83 runups in the price of aluminum, and the better appearance of zinc diecastings over plastics.

The industry continues to seek new applications for the metal such as zinc dry cell batteries for automobiles, emergency rooms and in computer storage banks. ...continued

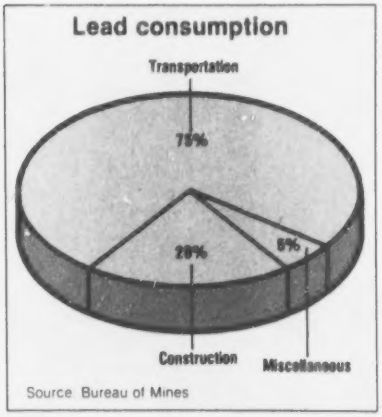


The industry's single largest expansion resulted from the Treasury Department's switch from 5% zinc/95% copper in the penny to 97.5% zinc/2.5% copper. this accounted for an additional 50,000 tons of zinc annually or about 5% of U.S. zinc consumption.

## Lead

Despite a 50% cut in output due to strikes at mines and smelters, supply is ample and the outlook is for an increase in supply due to the erosion of key markets. The industry is making a major effort to open new markets to take up the slack.

In 1979 the average U.S. price for lead was 52.6¢/lb. Since then it has declined steadily to 22¢/lb last year and this year rose to 32¢-35¢/lb, leveling off at its present 30¢/lb.



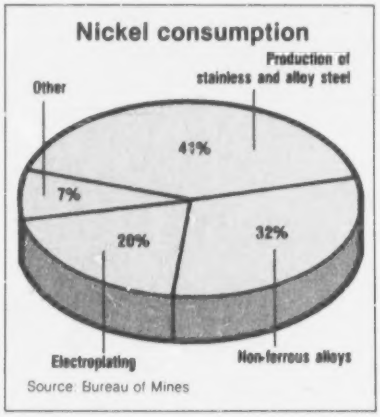

EPA's designation of lead as a health hazard and pollutant has also contributed to its declining market, in spite of industry claims it can be used safely under proper conditions. EPA also announced plans to cut the permissible amount of lead in gasoline by 91% by 1986 with a possible total ban by 1995 thus threatening to shrink lead's second most important market. Its most important market is automobile batteries.

The industry is seeking new applications in airport ground support equipment powered by lead batteries, further development of electric vehicles, and the use of lead in chemical form to extend highway life and reduce maintenance.

The industry is also trying to foster the use of lead in architecture in the U.S. The UK, according to Werner Meyer, president of the Lead Industries Association, uses ten times as much lead as the U.S. in buildings for flashing, roofing and siding. But U.S. architects and craftsmen are not familiar or skilled with the use and installation of lead in building.

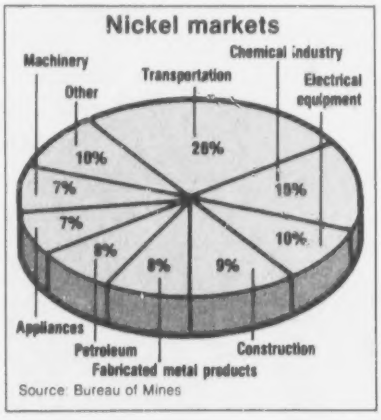
## Nickel

Domestic demand for nickel posted its first increase in four years with a 16% rise in 1983 and has been steadily increasing this year, mainly due to what an industry expert calls "unprecedented levels of stainless steel production."



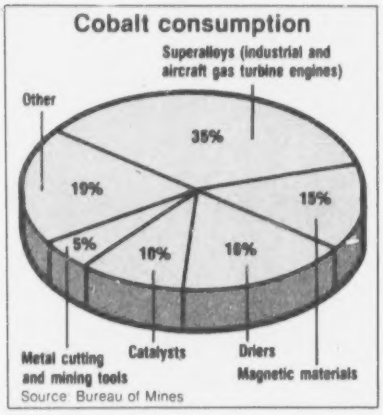

While supply of this metal is still plentiful and the price relatively low, inventories have been declining since January. The current $2.00/lb on the London Metals Exchange is low compared to the 1983 New York average free market price of $2.25.

A Nickel Development Institute, composed of free world nickel producers, was formed in Canada recently to develop new markets and promote the use of nickel products.




## Cobalt

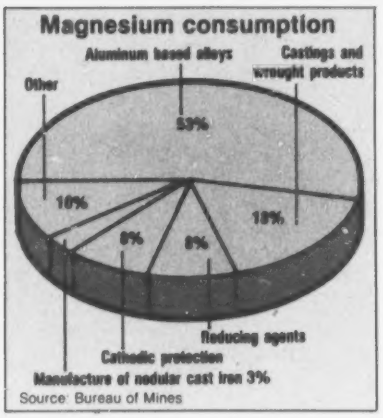
Cobalt's current price of $11/lb is double that of a year ago, but still low compared to $25/lb in 1980 and $21 in 1981. Worldwide supply remains plentiful. The U.S. imports all of its cobalt with 50% coming from Zaire and Zambia, which could both easily increase production, and the rest coming from Canada, Belgium, Luxembourg, Japan, Norway and Finland.




Magnetic materials account for about 15% of cobalt's U.S. markets, with Alnico magnets the leader of cobalt containing magnets. Samarium cobalt magnets appeared to open a new growth area with lightweight, powerful magnets mainly for application in lightweight electric motors; however, GM and Sumitomo Metal Industries have developed neodymium iron bar (NIB) magnets which are expected to be less expensive than cobalt magnets, weigh less and have better magnetic properties. GM is planning to use them in 1986 models in starter motors which will be smaller and weigh half as much.

## Magnesium

A 20% increase in magnesium consumption in 1983 over 1982 reduced inventories and triggered more production of the metal. Although demand is expected to increase annually by 5% to 7% through 1990, it is




still well below capacity.

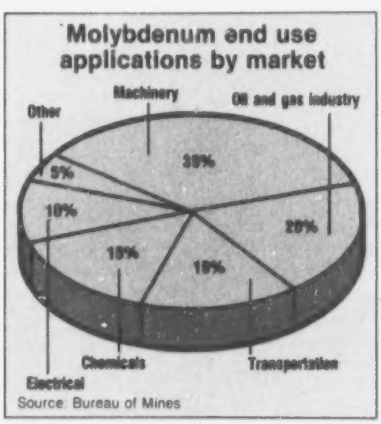
Increased demand is due largely to increased use for alloying aluminum for beverage can stock and in steel desulfurization. About 70% of North American steel is desulfurized, most of it with magnesium. Also, magnesium pressure diecastings became more attractive as aluminum prices were rising relative to magnesium, particularly in the automotive industry where they offer a combination of high strength and light weight.

### Molybdenum

Despite a projected 30% increase in U.S. consumption this year and a 15% increase worldwide, high inventories and ample supply will keep a lid on prices. The current price range of $3.60 to $3.80/lb has been fluctuating within a narrow range for the past nine months.

Signs are that molybdenum production will rise faster than demand because several mines started when prices were higher in the mid 1970's are now coming on stream. Four to five months supply is considered optimum by producers, but at least one estimate puts worldwide supply at 12 months.

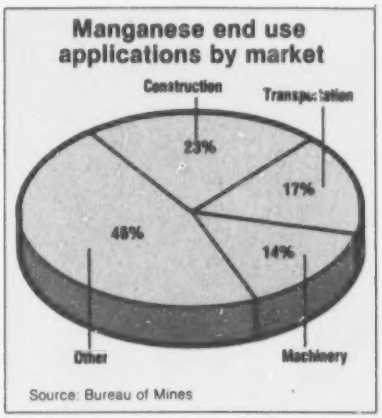
The major use of molybdenum is as an alloying agent to harden steel and its increased demand follows increases in steel production, especially for heavy duty applications such as construction equipment and machinery.




### Manganese

Because manganese continues to be in oversupply, no price increases are expected in the near future.

Most manganese ore is converted into ferroalloys for use in steel production, with the upturn in steel demand, manganese has risen.



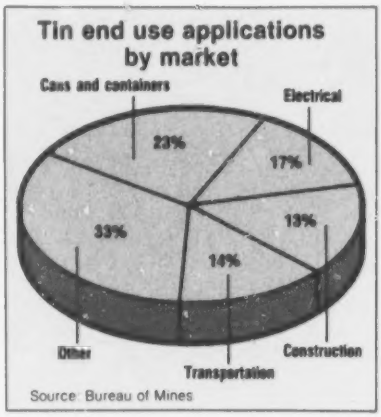

The U.S. imports 95% of its manganese principally from South Africa, Gabon, Australia and Brazil.

### Tin

As aluminum and plastic containers continue to make inroads into the steel can market, one of tin's major markets, less tin is needed.

U.S. consumption has been declining annually. In 1979, 69,000 tons were used at an average price of $7.11/lb. Last year, 48,000 tons were used at an average New York market price of $6.02. Currently, it's running around $5.75/lb.

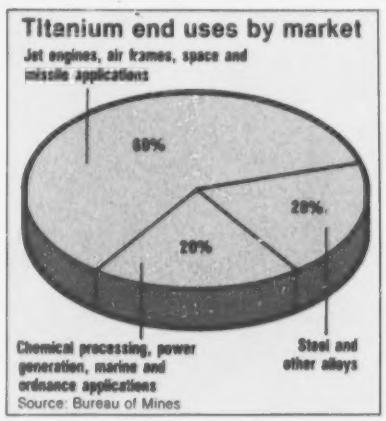
The International Tin Council cartel (Malaysia, Indonesia, Thailand, Australia, Nigeria and Zaire), which has maintained the floor price for tin for the past 27 years, cut shipments to try to dry up world oversupply. But illegal exporting of semirefined tin from Malaysia for refining in Singapore threatens the cartel's efforts.



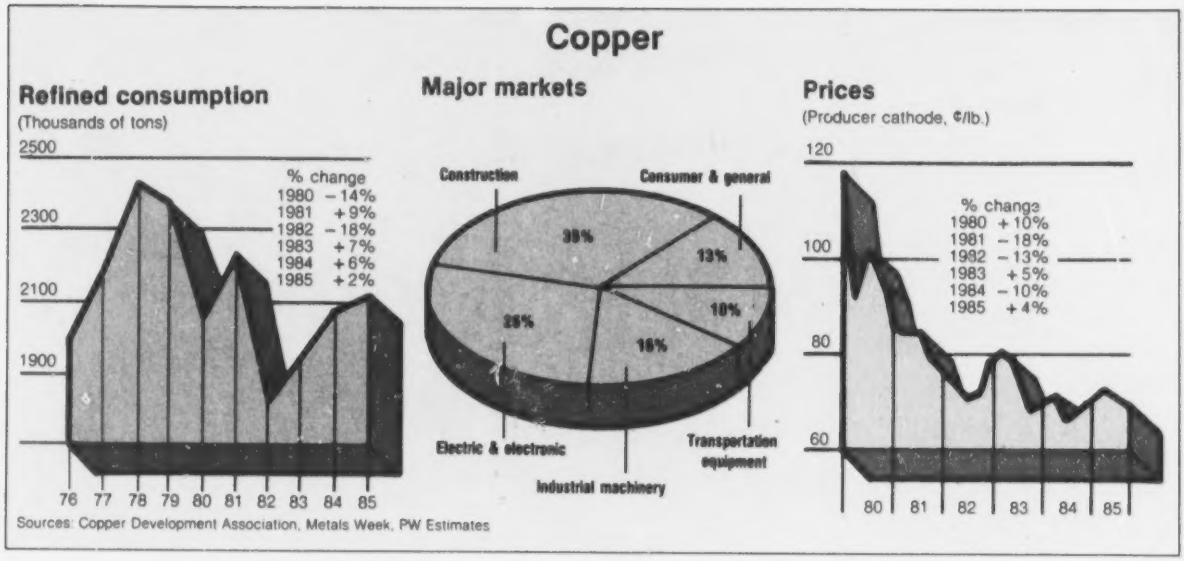

Some economists predict that if the ITC cartel collapses, the price of tin will drop by 50%.

### Titanium

Titanium sponge metal production is marked by a combination of weak demand and plentiful supply with production running at only 50% of capacity. This year's production is estimated at 18,000 tons with consumption pegged for 20,000 tons, hardly making a dent in current inventories.


Titanium end uses by market
Jet engines, air frames, space and missile applications
50%
28%
20%
Chemical processing, power generation, marine and ordnance applications
Steel and other alloys
Source: Bureau of Mines

Most titanium sponge metal is used in commercial aircraft, defense and aerospace production. Until those markets improve significantly, the supply-price situation will hold steady. ***PW***




# Cu + Al: in search of markets

The red metal continues to take its lumps.

Prices are actually below 1983 levels—20 months after the onset of the current business recovery (*see chart*). Copper has fluctuated (as recently as March it was fetching 76¢/lb). But the rallies have fizzled, with prices for producer cathode now in the low-to-mid 60's.

But a case can be made against claims the metal will continue to sink. For example, tags are about as low as they're going to get—with a possibility of a modest fall rally in the making.

Commodity exchange inventories are a case in point. During the first six months of the current year, combined LME and Comex stocks fell by over 250,000 metric tons—enough to take some of the downward pressure off the trading floor.

Demand isn't that bad either. This year, for example, refined U.S. consumption could be up as much as 6%—on top of last year's 7%—reflecting recent gains in some of copper's big markets, namely construction, electric, electronic and transportation equipment. Even in 1985, U.S. refined consumption could be up a few additional percentage points even though general economic gains are expected to slow down.

Adding to the demand total are 150,000 to 200,000 tons of free world metal to be exported to the Chinese this year. Even though this is 25,000 tons under last year it still has to be regarded as a firming element.

There is also talk of imposing U.S. quotas to stem the growing import tide. Imported refined copper was up over 36% in 1984 on top of last year's huge 70% jump.

Quotas would roll back these gains, but they would also redirect U.S.-bound shipments to other markets thereby depressing tags in these other markets.

Also, quotas would tend to give foreign fabricators an added competitive edge in U.S. markets. That would add insult to injury here given the fact U.S. fabricated copper product imports have been recently running better than 50% ahead of last year's levels.

Even if quotas and the other upward-tugging factors do have some influence on raw copper tags, it would be unrealistic to expect any major price runup, principally because a few of the forces which pushed the metal into its current corner are still operating.

Third World countries continue to spur output in an effort to earn badly needed foreign exchange. Chances of improvement in this area are unlikely.

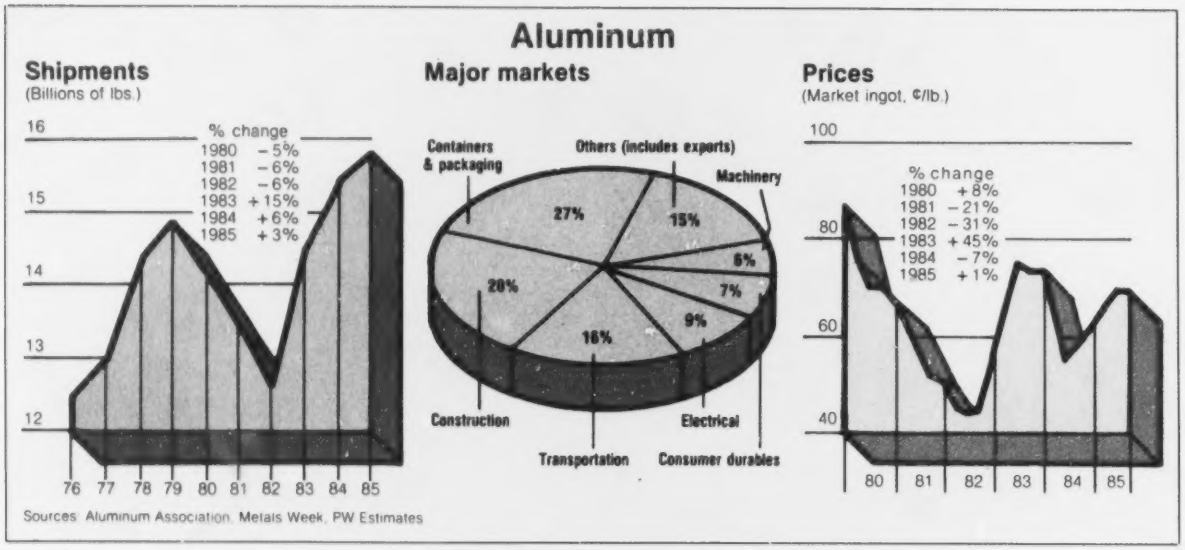
Chile is a good example. In spite of the world glut, they have just announced a three year plan which would increase copper production topping last year's output of 1.275 million tons to 1.410 million tons annually by 1986.

Compounding the problem is Chile's ability to produce the metal at 50¢/lb as opposed to 85¢ to 90¢/lb required of American producers who are also saddled with lower grade ores, higher labor costs and pollution controls.

Overseas production gains are offsetting producer attempts to bring supply and demand closer to balance. And, while domestic producers are operating at below 60% of potential, global output continues to climb, hardly the recipe for a firming market.

Copper is extremely sensitive to even small surpluses. For example, over the past three years the production-consumption gap was only 3%, but this was sufficient to knock 35% off the going price.

Consumption doesn't seem likely to rise in the next few years either. Miniaturization and substitution, such as fiber optics in telecommunications, have already made big dents in copper's traditional mark-




Sources: Aluminum Association, Metals Week, PW Estimates

ets. Few new markets loom on the horizon. Long term growth prospects are put at about 2%.

It is possible the price could edge up to 70¢/lb, but this is still 30% under the earlier level of a $1/lb.

The domestic industry is troubled and looks as though it will remain so for a while. As one metal analyst put it: "Unless prices of 90¢/lb can be sustained over the next few years, domestic producers will have to close some of their high-cost facilities, thus making this country more vulnerable in yet another critical metal."

### Aluminum

Vitality seems to be the name of the game now.

After taking off late last year and into early 1984, the light metal has done a flip-flop. A new moderately firming trend could be in the making, beginning next month.

The sudden decline in aluminum's fortunes took both buyers and sellers by surprise. Tightening supplies and rising prices gave way to glut, shorter lead times and much lower quotes.

Producer transaction prices in the ingot sector have dropped to 63.5¢ /lb. Merchant prices are only in the mid-to-upper 50's range, versus 75¢ at the beginning of the year, and IME tags are even lower.

Several factors are behind this sudden shift: One, producers overestimated the extent of the demand pick-up and reactivated facilities too soon. Also, imports in the first half of '84 are running 60% ahead of a year ago.

Corrective action is underway. Producers, for example, dropped the U.S. primary operating rate to around 80%, about five percentage points under the levels of a few months ago.

And demand, while not setting records, is around 15.5 billion pounds this year, about a 6% increase from last year. While this is not as dramatic as last year's 15% spurt (*see chart*), combined with production curtailments it could be enough to stem the price slide now and allow a slow upcreep to set in this fall and into early 1985.

The chances for a bounceback of ingot to 70¢ levels of a few months ago is highly unlikely for at least another 6 to 12 months as supplies remain adequate and demand gains gradually taper off with expected slowly decelerating GNP gains.

The reattainment of the official 81¢/lb producer list on ingot does not appear to be in sight.

Tags on more highly fabricated product lines should show similar trends, i.e. recovery, but nothing spectacular. While some of the softness in common alloy sheet and some extrusion lines might disappear, any increases should remain in the manageable range.

Packaging and construction are expected to remain number one and number two respectively on the demand scale. Some gains are possible in transportation. For example, Ford plans to put aluminum radiators in 90% to 95% of its domestically produced cars by 1988, up from 20% currently.

In the long run, things look fairly stable for at least the next five years or longer. The 4% average annual free world demand gain projected for the 1985-1988 period should be easily met with existing and planned capacity.

The same situation seems likely to prevail even into 1995. CRU Consultants, a New York and London based metals firm, expect only a moderate amount of smelting capacity will be needed over the next decade.

They conclude, "Include projects currently under construction and only 14 major projects or expansions will be needed over the 12 years from 1983 to 1995, far fewer than the 27 greenfield smelters that were built from 1972 to 1983."

CRU also hastens to add that a greater portion of the supply will be coming from sources other than the U.S., Europe and Japan. By 1995, combined Canadian, Oceanic and Latin American capacity will make up 36.1% of the free world potential, compared to only 23.1% now.

**PW**

# No new build-up soon

Inventories are still in good shape as missing production schedules offset the added tonnages moving into factory storerooms, so say the majority of PMs responding to a new nationwide *PW* survey.

But not everyone is completely satisfied. A fair number of respondents would still like to see their stock levels a bit lower. But nobody seems ready to push the panic button.

This is a conclusion confirmed by the Commerce Department's figures. Latest readings show the key durable goods stock/sales ratio for purchased materials (a time-tested measure of PM's days' supply) down sharply from the beginning of the year, with little indication of any new build-up.

The reasons for the "keep 'em lean" strategy are not too hard to find. Aside from today's high cost of carrying inventories, there's a ready availability of most products.

One buyer cites the fact that unlike the upturns of the 60's and 70's, inflation isn't around to bail out those who over-buy. As he puts it, "If we order too much now, we could take a bath with little chance of selling off the excess at a profit as we did during the past few decades."

## A closer look

Here's a detailed evaluation of how PMs see the inventory situation:

- **Current status:** Only 14% of the respondents characterized their stocks as being "much too high" and that's balanced out by an almost equal percentage who feel that some accumulation may be in order.
- **Tonnage plans:** While the figures suggest some slight paring through early next year, it doesn't look to be anything dramatic. Again the 7% who anticipate major declines are offset by 4% who plan significant additions over this period.
- **Price hedging:** This is still a viable strategy despite high carrying costs. More than two out of five PMs say they are not opposed to laying in a bit extra when a fair sized vendor boost seems imminent. Production lines where this is currently going on include steel, electronic components, plastic resins, packaging, coal, and selected component parts.
- **Strike hedging:** This is virtually nonexistent, primarily because there seems to be little indication of work stoppages ahead except for coal. An auto strike is also possible, but this would not be crucial for most purchasing departments.
- **Lead time trends:** There is still some concern about stretchouts, with about one out of three respondents keeping a weather eye on at least a few product lines. Some fear longer waits could hit electronic parts, steel, electrical products, specialty items and some lines of equipment.

One surprising finding is that the average carrying charge is put at only 18% per year, but talks with PMs suggest this might be understated since many do not consider the cost of money in their calculations; and often when they do, it is figured under the prime rate. Make a correction for this and the average charge is somewhere around 24-30%, or 2-2.5% per month.

But whatever such costs are, buyers seem determined to keep stocks as low as possible. Some of their approaches:

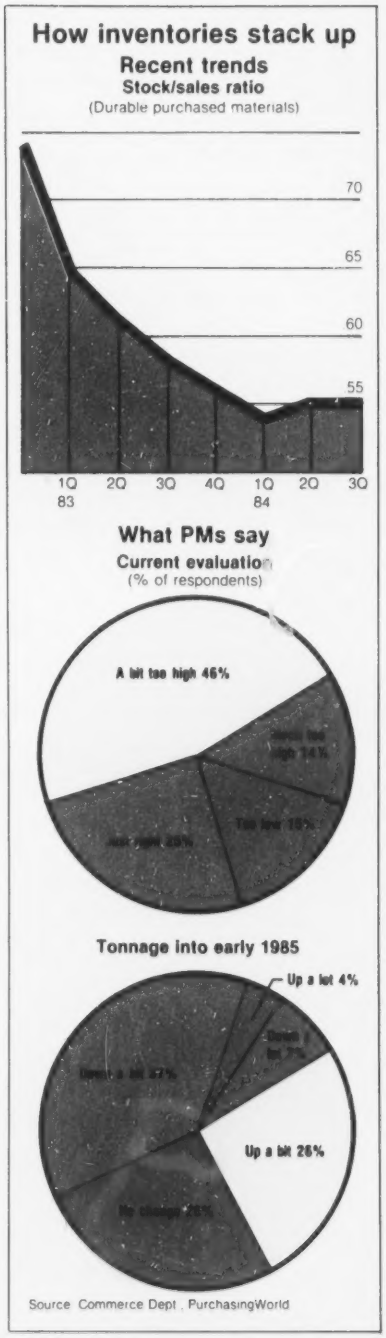
Better use of MRP, more exploration of the "just-in-time" concept, closer relations with vendors, increasing emphasis on long term contracts, blanket orders, and consignment buying.

## Using distributors more

Several also talk of shifting more buying dollars to distributors. Observes A.L. Caridi of Pittsburgh's Power Piping Co., "We are evaluating the possible advantages of buying from local distributors and maintaining low inventories, versus buying directly from manufacturers and maintaining high inventories."

On the subject of vendor relationships, many buyers say they are using both the stick and the carrot, insisting centers coordinate deliveries with their own particular production schedules, in turn promising bigger orders.

As one midwestern buyer sums it up, "We're not going to work miracles, and sooner or later days' supply will again begin to climb. But given all our new tools, I would hope we are beginning to cut down the amplitude of the business cycle, something that will not only aid us, but will also help keep the economy on an even keel." ***PW***



**Quarterly freight report**

# Freight bargains end but hikes to be moderate

Freight isn't quite the bargain it was last year, with tariffs moving up at a faster clip, but increases are expected to be moderate compared to those of the late 1970's when double-digit or near double-digit boosts were common (*see chart*), according to transportation analysts at Wharton Econometric Associates.

Dramatically improved traffic and increasing capacity utilization are the principal reasons for WEA's projection of a 6.2% increase, which is well above the 1.5% and 2.2% boosts posted in 1982.

Acceleration is expected to continue into next year, too, when the average freight tab is expected to advance by 7% as additional upward tugging factors continue to be felt.

Critical factors: (1) unions are likely to demand a bigger cut as transportation company profits recover; (2) energy price increases should heat up; (3) major truck and barge carriers are being hit with higher taxes.

The good news is next year's increases are a bit under the projections of 7.9% made just three months ago, mainly because energy price projections have come down.

Also, the anticipated economic slowdown in 1986 should limit any overall freight increase to around 4.9%.

Overall rate averages can be deceiving because different factors impact differently on each mode. Here's a brief rundown on what to expect in each specific sector:

**Rail:** Heftier rate increases stem from the industry's better health. Rail revenue ton/miles for the year

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through early July are 15.8% above last year's level, boosted by 17.1% rise in piggyback carloadings.

These traffic increases should support a 6.4% tariff boost this year, about 1% more than suggested three months ago.

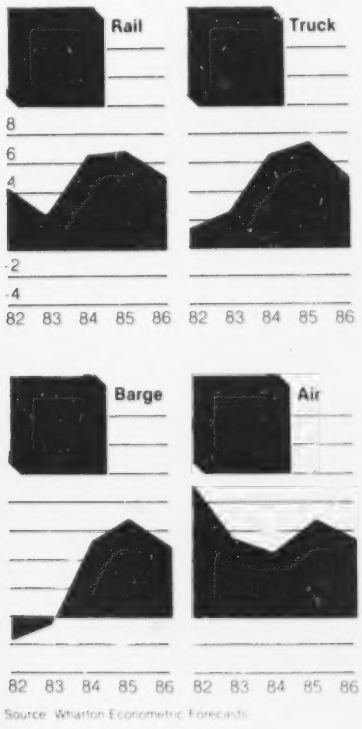
Wharton calculates about the same rate of increase next year (1985). This is less than other modes of transportation and reflects improved efficiency at holding operating costs in check. The absence of any large tax increases should also help keep tags in line.

**Truck.** Good business is the prime mover leading to higher rates here, too. An American Trucking Association survey of Class I and Class II carriers of general freight shows May ton/miles up 14.2% over last year's levels.

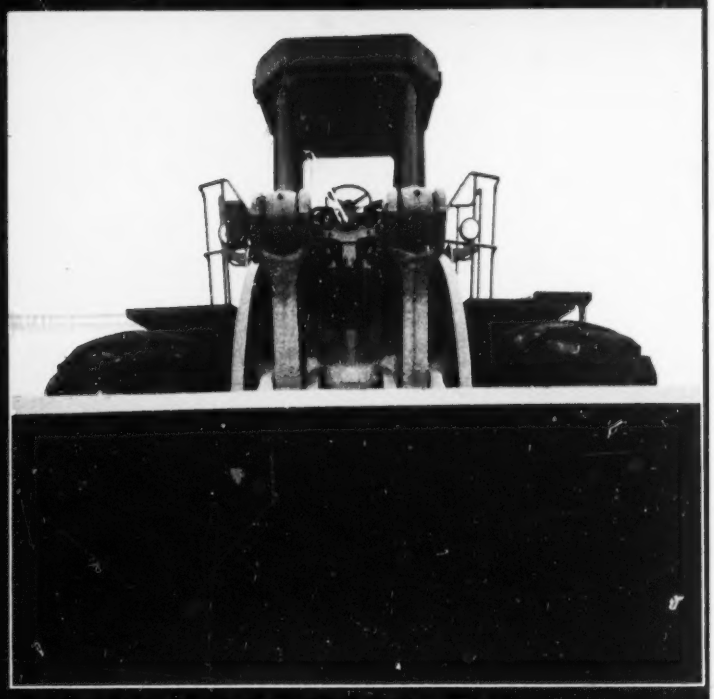
...continued

**Freight cost outlook by mode**

Percent increase over previous year




Source: Wharton Econometric Forecasts

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## Freight bargains end but hikes to be moderate

Outlook for the current year is for about a 6.4% increase, more than triple last year's modest 2%.

Anticipate further acceleration in 1985 to about 7.1% which is slightly higher than other modes.

Reasons: (1) climbing operating costs; (2) new legislation to exact $600 annual road use fees for vehicles over 55,000 lb and another 6¢ a gallon gas tax.

**Barge:** The declines over the past two years (3.9% in 1982 and 0.6% last year) are over, but lingering overcapacity will limit increases to a modest 5.2% this year.

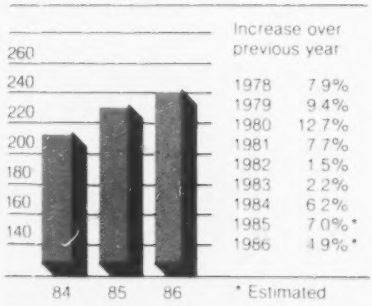
The 2¢/gallon gas tax scheduled for next year should push up prices by about 6.9%. The 1986 outlook is for about 5% increase, consistent with other modes.

**Air:** Freight traffic has been running about 10% ahead of last year, but tough competition should hold increases to around 4.7% this year, nearly two percentage points under projections of three months ago.

Projections for 1985 have also been revised downward from 11% predicted three months ago, to 6.9%. ***PW***

### *PurchasingWorld* freight rate index

Index 1972 = 100



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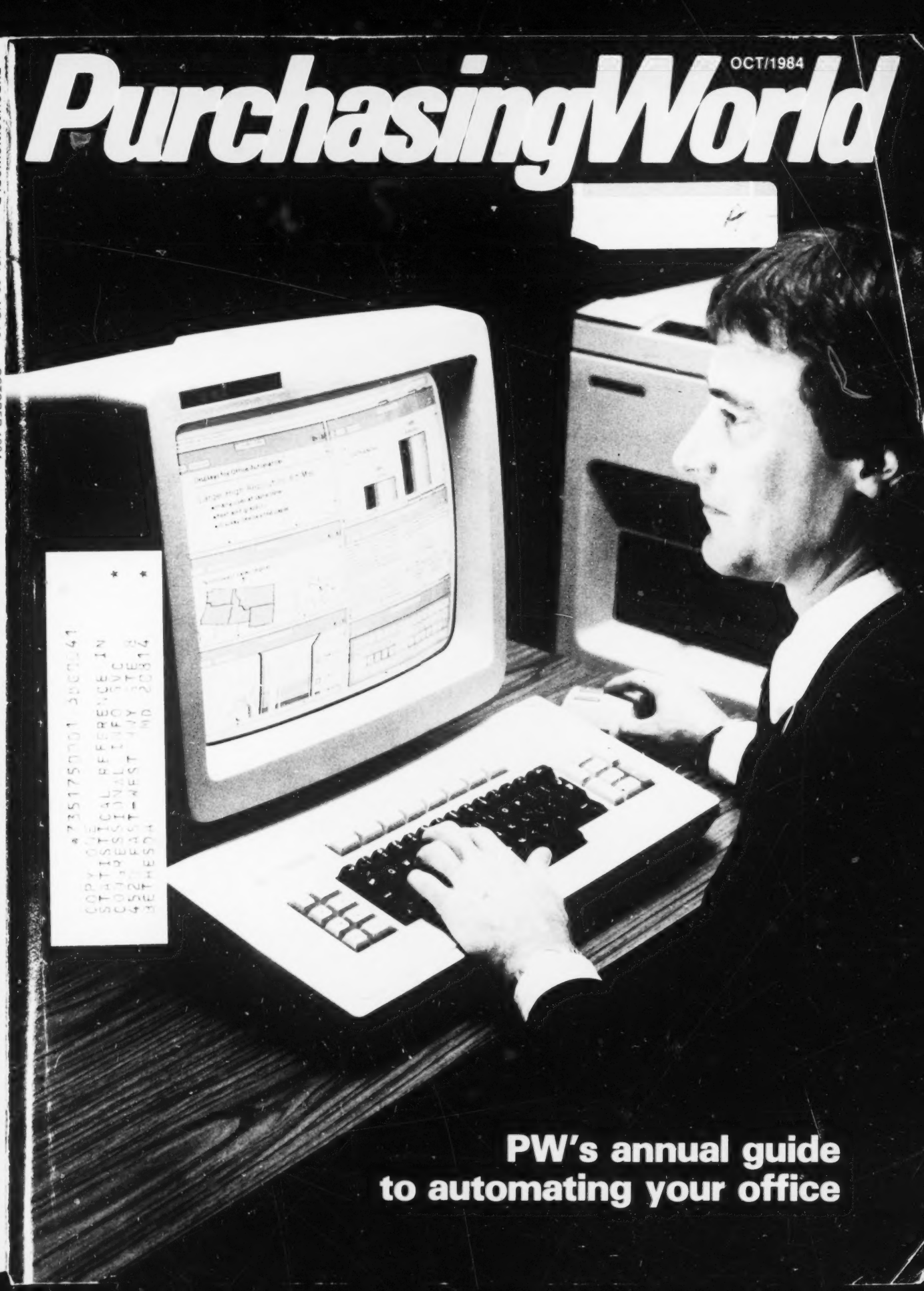

## PW's annual guide to automating your office

# PurchasingWorld

*Helping you manage the business of buying*

Vol. 28, No. 10-October 1984


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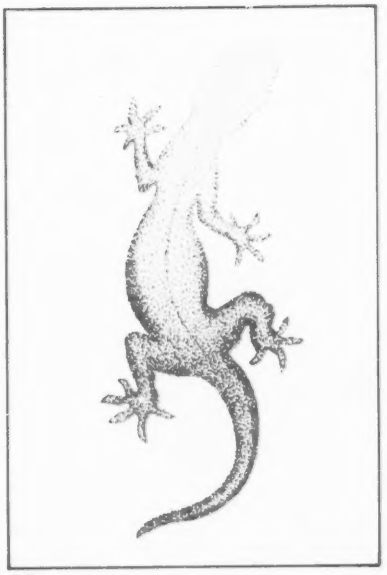
The bid process isn't necessarily the fairest method for selecting contractors, says *PW* columnist and noted consultant on negotiations Louis J. DeRose. Trying to make bids comparative, he says, can often lead to high costs all the way around.

**83* Tech file: cold-roll metal parts**
Cold-roll shaping of metal parts is increasing in popularity because, among other reasons, it can be the lowest cost metal parts-making process and there is virtually no loss of material, according to the American Institute for Iron & Steel.


Cover photo: Up to six display windows, representing six different computer operations under way simultaneously, are displayed on the large screen of a Xerox 8010 Star information system. Workstations share electronic filing systems and laser printers.



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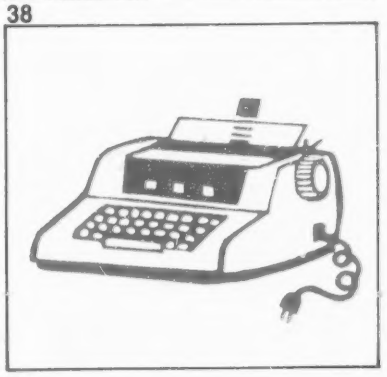

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Robert S. Reichard, executive editor

## Labor, productivity help hold price line

Credit much of the current price restraint to surprisingly modest labor cost pressure. Actually there are two separate factors operating here:

▪ **(1) Relatively low pay hikes.** Average weekly earnings are running about 5% ahead of last year. While unions are beginning to flex their muscles, it is unlikely increases will be greater than about 6% over the next 12 months. Office salaries are likely to follow the same pattern, with a recent survey suggesting about 6% for both this year and 1985.

▪ **(2) Increasing worker efficiency.** Productivity has been rising at close to a 4% rate since the recession ended in late 1982. This accelerated pace won't continue (generally, the further into an economic expansion, the more difficult it is to effect big gains). Most economists are looking for good 2-3% gains for the coming 12 months as companies step up programs for updating equipment and plants.

Place these gains against the probable wage hikes noted above, and unit labor costs are likely to rise at only a 3-4% rate through the next few quarters, thus minimizing upward cost pressures on prices.

Another significant inflation inhibitor is the failure of basic commodity prices to rise sharply as they have traditionally done during extended business upturns.

This unanticipated development can be attributed to a combination of factors, including: (1) excess capacity from the big buildup of the late 1970's, (2) miniaturization—in cars, airplanes, houses—which has reduced the amount of material used for finished products, (3) heavy commodity exports of copper and other materials by debt-ridden Third World nations, (4) a strong dollar which, aside from reducing U.S. landed costs, also draws additional supplies into the country, (5) high interest rates which discourage speculation and inventory building, and (6) the increasing availability of substitute materials which makes producers hesitant to post big new price boosts.

What does this all add up to? While it would be unrealistic to expect the current near-stable price pattern to continue indefinitely, there are still few signs of any significant acceleration.

This seems to be confirmed by an August Louis Harris Poll of the nation's top businessmen which showed a drop to 55% in the number anticipating even a small increase in the inflation rate against 81% three months earlier.

This optimism on the part of businessmen can be self-fulfilling in that companies that expect less inflation are less likely to raise their own prices in self-defense.

The Congressional Budget Office projections sum the situation up, calling for only a 5.3% increase in the all-inclusive GNP price deflator, not significantly above the 4.1% advance anticipated for the current 12-month period.

## Labor costs and prices

Unit labor costs (wage rates moderated by productivity gains) may be the best indicator of underlying price trends available these days.

A recent Commerce Department study seems to indicate as much. Looking at all industries, the analysis suggests a surprisingly close cost-price relationship in almost all instances.

The accompanying "scatter diagram," which plots the relationship in key industrial sectors for the past decade, illustrates this cause-and-effect relationship.

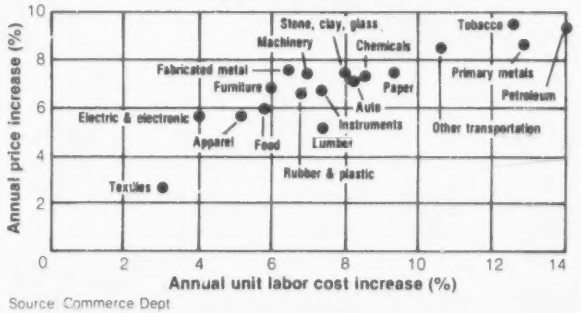
Note, in almost all cases, low unit labor costs beget relatively low inflation rates, while high unit labor costs are usually accompanied by hefty price increases.

Equally significant, the correlation is almost perfect for the all-industry total. Specifically, a 7.7% annual increase in unit labor costs since the early '70's resulted in a 7.6% annual increase in the overall price level.

The relationship seems to explain the low annual rates of inflation in textiles (3.0%), and electric and electronic equipment (5.9%). Both of these industries have been fortunate to have had high productivity increases and hence relatively low unit labor costs boosts.

This close correlation between cost and price is one of the primary reasons the near-term outlook remains noninflationary. Put simply, relatively low wage hikes this year (6% or less in most instances), combined with strong efficiency gains (close to 4% at annual rate during the first half of '84), point to relatively small unit labor cost increases and therefore continued modest price hikes in the months and quarters immediately ahead.

**The wage-price connection**




Source: Commerce Dept

## Aluminum

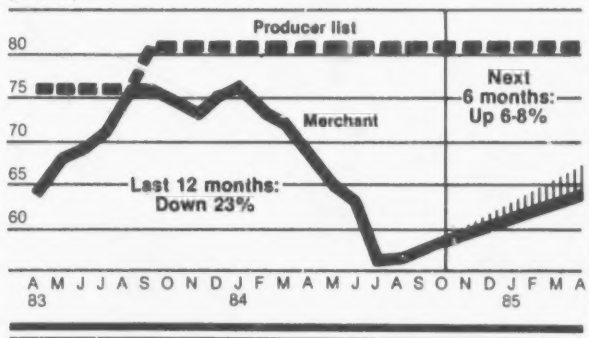
**CURRENT SITUATION:** Markets remain quite soft—despite significant U.S. production cutbacks of the last few months. Thus merchant ingot has recently gone for under 55¢/lb—a far cry from the 76¢/lb the metal was commanding as recently as January. Easiness is spreading into fabricated lines—with discounts as high as 12% reported in common alloy sheets, and some extrusions dropping as much as 14-18¢/lb. There's also a lot of foreign material around.

**DEMAND:** Aluminum will remain well in the plus column this year—with U.S. shipments rising to nearly 15.5 billion lb—some 6% or so above last year. Packaging and construction will remain the No. 1 and No. 2 markets, respectively—though packaging gains will slow down to only about 3%. Buying for auto use should be up sharply. Next year—a decelerating economy suggests little more than a 3% increase—with 4% annual increases thereafter.

**SUPPLY:** No real problems are seen—certainly not for the rest of 1984 nor for 1985 or 1986 as well. Current U.S. operating rates (78.5% at latest report) suggest ample room for demand gains as do new overseas smelters coming on stream. One recent global study finds that only 14 major projects or expansions will be needed through 1995—half the number of greenfield smelters built during 1972-73. With most built overseas, we'll become more import dependent.

**PRICE OUTLOOK:** Any bounceback to early 1984 peaks will be slow—both in the ingot and fabricated products sectors. Ingot tags won't move much beyond the 60¢/lb level by yearend—even with announced production cutbacks. Beyond that, things look bullish for the metal as long as the economy doesn't flatten out or dip. Ingot quotes should be up near 65¢/lb by next spring, enough to permit the industry a modest return—as production costs only run in the 50-55¢/lb range.

**Aluminum ingot**
(cents/lb)




## Electronic components

Markets may be ready to take a breather. New forecasts suggest an annual rate of rise of 2-3% over the next 12 months, far under the 6% advance over the past year. Prices could dip in such areas as the popular 64K DRAM—perhaps to under $3/unit before year end—as combined Japanese and U.S. capacity begins to exceed demand. Also, further falls in this key component are likely next year. Reason: manufacturing cost is less than $1/unit.

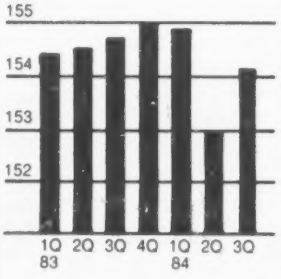
## Computers

Softness persists. Thus knee-tops are dropping, with price reductions ranging up to 37% reported on some of the more expensive models. On the low end of the line both Tandy and NEC now offer machines for as low as $599. Not even the big mainframes are exempt from broad gauge reductions. Over the past few months, cuts of over 30% have been reported, with low prices now in effect on many IBM, National Semiconductor, Amdahl, and Tandem models.

## Office equipment

Sophisticated machines for the modern office continue to edge lower. In addition to the continuing fall off in computers, good buys are also appearing in electronic typewriters where some heavy-duty models are off as much as 30-45% over the past year (to as low as $695), and copiers where the Japanese are now actively pursuing the lucrative 40-60 copies-per-minute market. Overall, this makes office equipment one of the best buys today—with increases for the next year put at under 1%—far under the 4-6% inflation rate projected for all industrial prices.

**Office Equipment Prices**
(Index: 1967 = 100)




## Cumene

Weak benzene contract prices ($1.32/gallon) are pushing tags down to near 22¢/lb, some 1.5¢/lb under recent spring levels. Two other factors behind the cumene decline are weakening demand from construction-related uses and rising imports. All this contributes to softening prices in downstream phenol where quotes have fallen 2¢/lb (to 34¢/lb) over the past few months.

## Lead

Markets are softening despite U.S. strikes. Behind the easiness is a combination of forces including (1) continued high production